

JPRS-CAR-92-080  
22 October 1992



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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-92-080

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## GENERAL

**Article Reviews Book on International Setup**  
HK0909150292 Beijing SHIJIE ZHISHI in Chinese  
No 16, 16 Aug 92 pp 26-27

[Article by Liu Shan (0491 1472): "New Book Talks Freely About World Setup"]

[Text] *World Setup in Transformation*, written by experts at the China International Problems Research Institute, has been published. The book touches upon important problems, such as what kind of pattern the world is in and China's position in it. I have read it and would like to talk about my own views on what has been discussed in the book.

### Where Is the World Heading?

Since 1989, the world has experienced the most profound historic changes since the war. The rapid changes in the Soviet Union and its disintegration announced an end to the bipolar pattern in the world. Where is the world heading? There have been different opinions. Some people say communism has died and the United States has changed from the leader of the West to the leader of the world. Others say a new world order will be established based on the social systems in Western society, guided by Western values, and dominated by the United States, Europe, and Japan. China and the developing countries think that, in the future, the world should build a new international political and economic order which is just, fair, equal, and reciprocal, based on the five principles of peaceful coexistence.

The development of the world will not change according to people's subjective will. To understand the world's future, we must first understand its present and past conditions. In order to probe the movement of the world, the authors of "World Setup in Transformation" have carried out a thorough historical analysis of global post-war changes in a serious and scientific manner. They have studied the overall pattern of changes in the world, and the changes in the various major regions. From the angles of international politics, military struggle, and economic development in the world, and basing themselves on facts, they have offered an analysis of and a discussion on the formation, transformation, and disintegration of the bipolar pattern and its influence on the world. Their efforts will certainly promote a more profound study of international problems in our country's academic circles. Here, I only want to discuss several points among many raised by the book.

1) Reasons for changes in the world setup. The main symbol marking the disintegration of the bipolar pattern is the decline and disintegration of the Soviet Union. The book offered a historical and dialectical analysis of the rise and fall of the Soviet Union, and said the shortcomings of the Soviet Union's system and its foreign policy of struggling for dominance in the world had led to its decline, but what had caused qualitative changes in the Soviet Union had been the line and policy of its leaders. This conclusion gives a deepened understanding compared with some simplistic views in the past. However, the decline of a

superpower has not led to sole dominance by another superpower. The disintegration of the Soviet Union has certainly facilitated the strengthening of the military and political positions of the United States, but it has not changed the trend in which the global economic position of the United States has declined. That is to say, the current changes in the world setup cannot be explained solely by the disintegration of the Soviet Union. Only when changes in power, including the comparative decline of the status of the United States, are included can we find the factors which played a determining role in changing the setup. Therefore, maybe we can say this: the rapid changes in the Soviet Union and its disintegration are a direct factor which have caused changes in the world setup, while unbalanced power caused by unbalanced global political and economic development after the war is the basic reason for the changes in the setup.

2) The world after the disintegration of the bipolar pattern. There are currently two points of view. One viewpoint holds that current international relations are a new kind of setup. The book holds another point of view, which says the current period is a transition period in which the old setup will change into a new one, and the book offers three grounds for this viewpoint. First, changes in world setup this time are not a result of war, and this determines that the transition will be a gradual, complicated, and fluctuating evolutionary process. Second, the gradual nature of the transformation will lead to uncertainties in the development of situation, and this kind of uncertainty is present in the evolution of the countries of the CIS and the development of Germany and Japan. Third, difference in geopolitics makes it impossible for the transition to proceed at the same pace in different places. These arguments are convincing. Here I want to add one point, that is, the new scientific and technological revolution is intensifying unbalanced political and economic development in the world, while a comparatively stable power arrangement between the big countries has yet to take shape. Therefore, a future world setup has yet to be formed. Judging from history, in a new scientific and technological revolution or a new industrial revolution, if backward countries can grasp the historic opportunity, they can develop themselves by leaps and bounds and change from being backward to being advanced; if advanced countries miss the opportunity, they might stagnate or even change from being advanced to backward. As the world's most populous big country, China can do something in the formation of a new world setup.

3) The major conflicts in the contemporary world. The disintegration of the bipolar pattern is causing changes in the major conflicts in international relations. What are the major conflicts in the contemporary world? Scholars inside the country generally hold two different viewpoints. One viewpoint holds that among the several major basic conflicts in the contemporary world, West-West conflict, that is, conflict among Western countries, has already risen to become the world's main conflict. Another viewpoint holds that the transformation of major conflicts in the world is a changing process, and that at present, West-West conflict is rising, but coordination and compromise among



Western countries still has the dominant position. What is the main conflict in the contemporary world? We still have to stay calm and see.

There is logic in saying that West-West conflict is the main conflict in international relations after the disintegration of the bipolar pattern. Relations between major powers in the West have indeed experienced some changes of a turning point nature. The objective factors causing these changes include: 1) the disappearance of a common enemy means the disappearance of cohesive force among them; 2) the comparative economic strengths of the major Western countries have changed and are changing; and 3) the development of economic and social conflicts within major Western countries have intensified clashes between their national interests. Relations between the major Western countries have developed from economic conflict, control, and decontrol, on the premise of opposing a common enemy in the past, to the struggle for energy markets, spheres of influence, and political dominance in the world and its regions.

However, this kind of struggle among Western countries is still at an early stage. At present, they still have a broad consensus in the area of maintaining pressure and promoting power politics against socialist and developing countries, and in the area of coordinating the promotion of a political and economic order in the world guided by the West. West-West conflict might become the main global conflict in the future, but now is not the future.

#### **Our Country's International Environment, Reform, and Opening Up**

The disintegration of the bipolar pattern has brought about important changes in our country's international environment. The 1990's will be a crucial period in which our country realizes socialist modernization, and the people will naturally pay close attention to the issue of whether the international environment is favorable to our country's construction. What is China's status and role in the new world setup? The book has a chapter which specifically discusses China in the new world setup, and this will probably interest many readers.

After 1989, our country once faced a grim international test. There was once an argument which said that China's red flag would not be flying for very long. However, practice over the past few years has proved that China has not only survived sanctions imposed by the West and repercussions caused by changes in the Soviet Union, but has also developed a new situation in its diplomatic work. This cannot but compel people to ponder at a deep level. The book analyzes the favorable and unfavorable elements of our country's international environment, and this can certainly help readers to make an objective and profound judgment of the international environment.

What I want to stress here is, from the overall angle and from the development viewpoint, the favorable side of our country's international environment is the main side.

First, the end of the military confrontation between the United States and the Soviet Union has enabled our country to have a peaceful environment for a longer period. Second, the disintegration of the Soviet Union and the unstable development of various CIS states has indeed brought some problems to our country; however, generally speaking, this has improved our country's security environment and has created conditions for our country to develop political and economic relations with neighboring countries. Third, the disturbances in Europe in addition to the intensification of West-West conflict have attracted the West's attention. Our country has more room for maneuver in its diplomatic activities, and the relations between our country and the big Western countries are likely to be further restored and developed. Fourth, the political situation in East Asia and the Asia-Pacific region is comparatively stable, and the region ranks first in the world in terms of economic development. This has provided our country with a new opportunity for expanding opening up to the outside world. Fifth, amid the turbulent transformation of the old pattern into a new one, China's role in maintaining stability in the world and its regions and the huge potential of the Chinese market have been recognized by more and more people. Although the development of the world's situation still has an uncertain and unstable side, and our country will not have a very smooth road ahead, after the disintegration of the bipolar pattern, China's status and role will not be smaller than in the past but can only be bigger.

Of course, we must also face challenges and strengthen our sense of urgency for economic construction. Since the disintegration of the bipolar pattern, the contest for comprehensive national strength has become the main topic which concerns big countries wanting to secure a favorable position in the future pattern. Economic and technological backwardness is our main weakness. At present, our country's GNP and exports account for 2 percent of the world's totals. This does not match the status of a big country and also restrains our country's ability to play its role in the international community. Only when we can enable our country's comprehensive national strength, especially its economic and technological strengths, to move to a new stage, can we take the initiative in competition in a future multipolar world and can there be a reliable basis for seeking to build a new political and economic order in the international community for the goal of world peace and common development.

Looking at the 1990's, one finds that the world's economy is moving from adjustment to gradual growth. By the mid-1990's and in the latter period of the decade, new science and technology will gradually form new productive forces, and the world economy will probably have a period of faster expansion by this time. We must firmly grasp the opportunity and promote economic construction with faster reform and expanded opening up so as to enable our country to have the place among the big countries it should have in the 21st century.

Judged overall, this is a book which has a rich content and careful arguments. It is a good book which is worthwhile to read. If we should say that the book also has shortcomings, then, perhaps, there is one point: because the book is written by many scholars, it repeats itself in some places and is not well integrated. In addition, it seems that when the world is moving toward a multipolar pattern, the

restraining role of the United Nations and other multilateral organs is worthy of study, but it has not been reflected in the book. One flaw cannot obscure the splendor of the jade, I only want to offer some immature ideas and hopes. (The author of this article was deputy head of the State Council Foreign Affairs Office and is now president of the Foreign Affairs College.)

**QIUSHI on Rural Grass-Roots Power  
Departments***HK2008071192 Beijing QIUSHI in Chinese  
No 11, 1 Jun 92 pp 29-34*

[Article by Hu Zhenmin (5170 2182 3046): "Several Issues Concerning Effectively Strengthening Building of Rural Grass-Roots Organizations"]

[Text] The "Resolution on Further Strengthening Agricultural and Rural Work" issued by the Eighth Plenary Session of the 13th CPC Central Committee emphasizes the need to "effectively strengthen the building of rural grass-roots organizations." In the course of implementing this "resolution," we should have a clear understanding of the guiding ideology and basic requirements regarding the process of strengthening the building of rural grass-roots organizations. We must adopt effective measures to strengthen the building of rural grass-roots organizations based on township (or town) party committees and village party branches as well as the building of the cadre contingent in rural areas. We must also provide a vigorous organizational guarantee for further opening up new prospects in our country's agricultural development and rural work.

**I. Fully Understand the Important Role That Rural  
Grass-Roots Organizations Play in Agricultural  
Development and Rural Work**

Rural grass-roots organizations primarily include party organizations and organizations of political power at the township (or town) level, party organizations at the village level and villagers' autonomous organizations, collective economic organizations, and some mass organizations such as the Communist Youth League [CYL] organizations, women's federations, and militia groups. They represent the rural foundation of the party and the state, the ties and bridges that enable the party and the state to maintain links with the masses, and the footing on which all work in rural areas is conducted. The rural grass-roots organizations must implement the party's and state's principles and policies and the tasks of economic and social development in rural areas by conducting effective work among the masses. These organizations, furthermore, must make the opinions, demands, and wishes of the peasant masses known to the leadership organs at various levels. It is often through the rural grass-roots organizations' activities that the peasant masses establish the standing and image of the party and the state in their minds. The condition of rural grass-roots organizations have a direct bearing on whether the party and state can gather the broad masses of peasants and rally them to steadfastly follow the socialist road. They also have a direct bearing on whether the foundation of the party's leadership and socialist political power is consolidated in rural areas. The rural grass-roots organizations are required to undertake highly effective work so that: agriculture and rural work in China can achieve new breakthroughs in the 1990's based on the accomplishments of the 1980's, comprehensive agricultural production capacity can be raised to new heights, rural reform can make fresh progress, rural society's general appearance can undergo a new change and,

subsequently, the goal of moderate prosperity can come true. Therefore, to further strengthen agricultural development and rural work, it is imperative to start by strengthening the building of rural grass-roots organizations.

Since the Third Plenary Session of the 11th CPC Central Committee, tremendous achievements have been made in China's rural reform and construction, and great historical changes have taken place in rural areas. This is sufficient proof that the orientation and basic policies for rural reform and development are perfectly correct, that the overall conditions of the numerous rural grass-roots organizations are fine, and that they have an adequate fighting capacity. Nevertheless, we must be soberly aware that the building of rural grass-roots organizations was somewhat weakened a few years ago. A new situation developed, in which the rural operating system and the system for buying and selling products were implementing major reforms, the rural industrial structure and ownership structure were experiencing important readjustments, and the peasants' values and working mode were undergoing profound changes. We failed to conduct sufficient study of these new circumstances or the new problems that emerged; nor did we adopt effective measures for improving our work. This led to the accumulation of a considerable number of problems in the building of rural grass-roots organizations. Though things were much better after the Fourth Plenary Session of the 13th CPC Central Committee, there are still quite a few problems which require immediate solution. For example, in many places, the township (or town) party committees and governments lack the necessary authority and efficiency. Their strength is being pulled apart by serious localism and departmentalism, which have been unable to merge into combined forces. The administrative exchange between townships and villages is being obstructed, making it difficult for government decrees to be fully implemented in the villages. A large proportion of organizations at the village level are not well-developed and do not have strong cohesion, magnetism, or fighting capacity. Some are perennially in a weak, slack, paralyzed, or semiparalyzed state. The result is that no one takes responsibility for productive operations, organizational coordination, and various tasks of management in the villages. Ideological and political work and the building of spiritual civilization are very weak, and the unchecked spread of feudalistic superstitions and various decadent ideas is serious. Some repulsive phenomena keep spreading; social order has been lost; and public security is poorly maintained. In sum, the broad masses are extremely discontent. Furthermore, the quality of township and village cadres is not up to par in some localities, and their ideology, work style, and general competence are not in sync with the new circumstances and new tasks. They are dishonest in performing their office duties, seek personal gain by misusing their power, and even violate law and discipline. This seriously impairs the relationship between the party and the masses and that between cadres and the masses, to the detriment of the party and government's prestige among the masses and also to the detriment of smooth progress of rural reforms and construction. These conditions fully demonstrate that taking

effective measures to strengthen the building of rural grass-roots organizations is an important and urgent task.

Based on the experiences of the 1980's and in keeping with the party's basic line and what is required by the process of building new socialist rural areas with Chinese characteristics, the general guidelines for strengthening the building of rural grass-roots organizations in the 1990's can be summarized with the following: Keep in mind the need to strengthen and improve the party's leadership over rural work, maintain close relations between the party and the peasant masses and lead them to steadfastly follow the socialist road, focus on economic construction and thoroughly integrate the deepening of rural reforms with the strengthening of the two civilizations, simultaneously do a good job in the comprehensive building of township (or town) power organs, villagers' autonomous organizations, rural collective economic organizations, CYL organizations, women's federations, and militia bodies, with an emphasis on the building of township (or town) party committees and rural party branches.

## II. Strengthen the Comprehensive Building of Village-Level Organizations With Party Branches as the Core

There are several basic requirements for strengthening the building of village-level organizations. There should be a villagers' committee which is capable of implementing laws, decrees, and policies and performing functions of autonomy. There should also be a rural collective economic organization which possesses collective economic strength and can function well in unified management. Finally, there should be such mass organizations as CYL branches, women's representative conferences, and militia bodies which have a specific role to play. In order to reach these requirements, it is imperative to do the work well in the following aspects.

1. Turning party branches into the leadership cores of village-level organizations. Village party branches are the CPC's grass-roots organizations in rural areas and form the core for leading the cadres and masses to overcome difficulties and steadfastly follow the socialist road. Since the implementation of contract responsibility systems on a household basis with remuneration linked to output, the role of village party branches as leadership cores has become all the more important. Investigation shows that, as long as there is a strong and capable village party branch—even though natural conditions are relatively poor and the economy is relatively backward—the situation of a given village may still quickly improve. In middle-of-the-road villages—which comprise approximately 50 to 55 percent of all China's administrative villages—and the backward villages—which comprise approximately 15 to 20 percent of this total—the problems are generally related to the fact that their village party branches are weak and lax in organization and divorced from the masses and, especially, that their party and branch secretaries are not capable or impartial. Therefore, it is imperative to make strenuous efforts to build village party branches into leadership cores and firm strongholds

which conscientiously implement the party's line, principles, and policies. We must also unwaveringly follow the socialist road, maintain close ties with the masses, observe strict discipline, and have a strong fighting capacity.

The key to strengthening the building of village party branches is to have a strong and capable leadership group, in particular a good branch secretary. There are several basic qualifications that a village party branch secretary should have. He should have ideals and a firm socialist conviction and should resolutely and conscientiously implement the party's line, principles, and policies. He should be honest in performing his official duties, and should not seek personal gain nor cringe at losses. He should be dedicated and should possess a strong work ethic as well as genuine abilities to lead the masses toward common prosperity. We should adhere to these criteria, broaden our vision, and make a point of giving the position of party branch secretary to excellent party members who are genuinely willing to contribute to realizing common prosperity and who are chosen from among the returned educated youth, demobilized soldiers, and capable and resourceful party members. In the meantime, it is necessary to strengthen rural party members' management skills and conduct more in-depth education on "striving to be qualified communist party members in the new era and making contributions to realizing rural economic and social development." We must arouse in party members the spirit of plunging actively into struggle and selfless devotion and must launch various effective activities, such as pairing party members with rural households, establishing responsibility zones for party members, urging party members to help the poor become rich, and setting up integrated economic bodies with the efforts from both party members and the masses. Furthermore, we must assign tasks to party members, make certain demands of them, and exercise personnel management of party members by prescribing goals so they can fully play their exemplary role as vanguard, and we must develop the system of regular party activities and the system of democratic appraisal of party members. Finally, we must carry out criticism and self-criticism, promote positive factors and overcome negative factors, and must properly handle incompetent party members in accordance with the relevant regulations while strengthening education and management. In order to maintain the party members' vitality, it is necessary to make active efforts to recruit party members and, in the same breath, prevent incompetent people from joining the party. There are currently over 9,300 administrative villages, 1.3 percent of the national total, that lack party branches. We must take measures to gradually solve these problems.

2. Conscientiously implementing the "Organic Law for Villagers' Committees (For Trial Implementation)" and pushing ahead with the building of democracy in the grass roots of rural areas with active efforts in a steady manner. Building new rural areas of socialism is a creative cause of the 900 million peasants and, therefore, must depend on the active and conscientious participation of the broad peasant masses. Gradually establishing and developing villagers' committees and correctly bringing into play the



role of villagers' autonomy helps promote the building of democracy in the grass roots of rural areas. Villagers' committees are mass organizations of autonomy, through which villagers provide management, education, and services for themselves under the leadership of the party and within the bounds of state law. The basic tasks of villagers' committees are the following: Mobilizing and relying on the masses, arousing the enthusiasm of the peasant masses, settling civil disputes through mediation, giving assistance to the maintenance of social order, handling well public affairs and public welfare undertakings, and accomplishing the various tasks of the state. At the moment, several things should be done well with special attention: 1) Respect the will of the villagers and let them deliberate fully on the issue before producing a leadership team, i.e., a villagers' committee formed through election in accordance with the law. The township (or town) party committees, governments, and village party branches should not, on one hand, run the whole show in the village elections and, on the other, should strengthen leadership over the elections, educate villagers to correctly exercise their democratic rights, and strictly guard against such activities as cheating, bribery, distribution of pamphlets, threats of violence, or the use of clan or factional influence to deter voters from exercising their democratic rights. 2) Develop the system of villagers' assemblies. All major matters that concern the interests of all the members of a village and the work of the entire village should be determined by the villagers' assembly through discussion. In particular, when it comes to such issues as the economic development of the village, projects of construction or reform, financial outlays, distribution of means of agricultural production, family planning quotas, conscription and recruitment of factory workers, and allocation of housing land, it is necessary to listen to the villagers' opinions extensively, hold democratic discussions, and make a decision together. It is necessary to enhance the openness of village affairs and to accept villagers' supervision over the villagers' committees. 3) When necessary, establish and develop such autonomous organizations as security bodies, intermediary bodies, and public health establishments. It is necessary to mobilize the villagers to formulate village regulations and folk rules, exercise self-management and self-restraint, solve the bulk of the problems within the confines of the village, and create a safe, tidy, civilized, and harmonious environment for the masses' productive operations and living. 4) Build villagers' teams well. Villagers' teams are the basic components of villagers' committees. At present, the building of some rural villagers' teams is quite weak, giving rise to the situation whereby nobody is taking care of the relevant affairs, and it is difficult to carry out the work in many respects. It is necessary to effectively strengthen the building of villagers' teams and prevent disconnection between the village administration and households. 5) It is necessary to conduct propaganda activities about the Constitution, the law, and policies for villagers. Education must also be conducted on citizens' rights, interests, and duties, and villagers must be organized and mobilized to perform their duties and accomplish the various tasks assigned by the township governments.

3. Gradually developing rural collective economic organizations. The effort to strengthen the collective economy must be supported by collective economic organizations. The "resolution" passed by the Eighth Plenary Session of the 13th CPC Central Committee further mentioned the need to establish and develop rural collective economic organizations. It pointed out: "In rural collective economic organizations, whether called cooperatives, integrated economic bodies [jing ji lian he ti 4842 3444 5114 0678 7555], or any other name chosen by the masses, it is necessary to gradually develop management institutions and various rules and regulations, to strengthen management of agricultural contracting, enterprises, and finance, to carry out collective accumulation, and to give full play to their functions, such as providing services for production, coordinating and managing, exploiting resources, running enterprises, and accumulating assets." In this spirit, all localities should give a good form to the management institutions of rural collective economic organizations and various rules and regulations. This process mainly contains the following aspects: 1) Developing management institutions. Collective economic organizations should be set up in light of the specific conditions of various localities and management institutions should be established through election. If one is set up in each village, unpaid appropriation of the assets of its predecessor, the production team, is not allowed, and the obligatory rights and liabilities should be properly handled. 2) Strengthening the management of contracting. The contracting relationship between the collective economic organization and peasant households should be established through contracts, which must comply with the state law and policy and conform to the organization's statutes and the stipulations agreed upon by members of the community [she yuan 4357 0765]. Once authenticated in accordance with the law, contracts become legally binding, and any disputes arising therefrom should be settled in accordance with the law. 3) Strengthening the function of service delivery. This is an important task for village collective economic organizations. It is necessary to, in view of needs and possibility, establish various service organizations, make a point of bringing into play the role of specialized service-delivering households, and help peasants solve problems and overcome difficulties in plowing, sowing, seed supply, irrigation and drainage, crop protection, and epidemic prevention in the shortest time possible. In the meantime, it is necessary to take the initiative to establish extensive links with various service organizations in society at large and the state technological and economic departments, expanding the capacity of comprehensive services. 4) Increasing economic strength. The rural collective economic organizations should actively exploit natural resources, run collective enterprises, improve operation and management, improve economic efficiency, and increase the income of the collective. Meanwhile, it is necessary to establish and develop the system of retaining profits for the collective, of depreciation of fixed assets, and of accumulation of labor, constantly expanding the collective economy through the development of production and accumulation by the collectives themselves. 5) Strengthening financial management. It is necessary to, on the basis of conscientiously

sorting out the collective property, amplify the financial management system, strengthen management over the newly acquired and original collective accumulation, exercise rigorous control over the processing of spending plans, and practice democracy in handling financial affairs. Each year, the budget and final accounts must be examined by the community members' assembly or representative conference and income, and expenditures should be publicized to the masses regularly.

4. Taking substantial measures to strengthen the building of such mass organizations as CYL organizations, women's representative conferences, and militia groups. Village CYL branches and women's representative conferences are the bridges and ties that bring the party and government close to the broad masses of young people and women in rural areas. Party organizations should show concern for them, regularly listen to their work reports, help them solve practical problems, and create the necessary conditions for them to carry out their work. It is especially important to make a point of helping them bring up and select cadres and improve work competence, so that they can play their role to the full in building the two civilizations in rural areas.

### III. Further Amplify Functions of Township (or Town) Party Committees and Governments

Nowadays, the fact that the township (or town) party committees and governments in some localities lack due authority and efficiency has not only to do with inadequacies in their own building process, but is also related to confusingly intertwined systems and underdeveloped leadership functions. Therefore, to enhance the authority and efficiency of township (or town) party committees and governments, it is imperative—while making strenuous efforts in the building of leadership groups in ideology and work style—to conscientiously solve the problems of confusingly intertwined systems and underdeveloped functions.

First, it is necessary to sort out the relationships of township (or town) party committees and governments with the institutions set up there by the relevant county (or city) departments and solve the problem of cutting up links between departments and regions and the problem of holding each other back. With the rural economy growing and the various functions of management of the state in rural areas gradually developing, the institutions set up in townships (or towns) by the relevant departments of counties (or cities) are gradually increasing. At present, in a medium-sized township (or town), there are normally about 30 such institutions, and this figure still shows a tendency to increase further. Each of these institutions is directly managed by the relevant county (or city) department, and the limits of management vary. In some cases, the authority over manpower, finance, materials, and even party membership credentials is in the hands of the competent departments, while in others the authority over manpower, finance, and materials is in the hands of the competent departments, but party membership credentials are handled by township (or town) party committees. In still other cases, party membership credentials and the

authority over personnel matters rest with the townships (towns), but the payroll is in the hands of the competent departments. Because there are too many institutions set up by the relevant county (or city) departments and control is too strong, many conflicts have appeared. First, the functions of township (or town) party committees and governments are split up. Because much of the important jurisdiction of the institutions in townships (or towns) is with the competent county (or city) departments, they naturally take orders predominantly from the latter, resulting in the inability of the township (or town) party committees and governments to conduct overall coordination on the work of various departments in their townships (or towns). Secondly, various departments run into obstacles in exercising their authority. Because of the lack of the overall coordination by township (or town) party committees and governments, the institutions set up in these townships (or towns) by the relevant county (or city) departments all show inadequate power and the phenomenon of "those with authority having no power and those with power having no authority" has emerged. In some localities where conflicts are intense, the leaders of county (or city) departments and the leaders of township (or town) party committees and governments go so far as to lodge complaints against each other with their superiors, causing constant waste of energies through internal friction. Thirdly, different areas and departments show differing flexibility in interpreting and implementing the cadre policy. They make their own policies and create openings indiscriminately, especially in such matters as size of institution, rank-related treatment, and cadres' employment and retirement. The result is that they emulate each other; there have been many complaints.

To solve the above problems, it is imperative to deepen reform and sort out the relationships among areas and departments. In the spirit of the "resolution" passed by the Eighth Plenary Session of the 13th CPC Central Committee, there are at the moment two tasks which need to be accomplished. One is that the institutions set up in townships (or towns) by relevant county departments—except for a small number which cannot delegate their jurisdiction to lower-level authorities, in which case dual leadership should be implemented—must all be subjected to the management by township (or town) authorities. For the transfer, appointment and removal, and rewarding and punishment of cadres in institutions with dual leadership, consent should be secured from township (or town) party committees. The other task is that the leadership of township (or town) party committees and governments over these units must be strengthened, so that they can cooperate with each other, form combined forces, and serve rural economic and social development together. It is necessary to align our understanding with this spirit, carry out rational sharing of responsibilities, and clearly define responsibilities and jurisdictions. While performing their respective responsibilities, the township (or town) party committees and the relevant county (or city) departments must adopt an awareness of overall interests and refrain from practicing "departmental ownership" or "regional ownership." They should, by establishing and improving

coordinated procedures of work, keep each other informed in good time, respect and supervise each other, and enhance efficiency.

Second, it is necessary to sort out the relationship between township (or town) governments and villagers' committees and solve the problem of lack of communication between townships and villages. Since the "Organic Law for Villagers' Committees (For Trial Implementation)" came into force, some localities have failed to correctly understand and appropriately handle the relationship between the township (or town) governments and villagers' committees. They have overemphasized the idea that the relationship between township (or town) governments and villagers' committees is not that between the leadership and the subordinate, but that between the guiding party and the assisting party. Township (or town) governments have, to a serious extent, relaxed or even given up the guidance, support, and help for the work of villagers' committees; villagers' committees have failed to conscientiously perform their duty, which is to assist township (or town) governments in the latter's work, causing serious obstruction to the administrative exchange between townships (or towns) and villages and creating a negative impact on the building of the two civilizations in rural areas. To solve this problem, on one hand, the township (or town) governments should respect the legal status of villagers' committees and, on the other, villagers' committees must have a clear understanding of their functions. If villagers' committees do not strive to accomplish the administrative tasks assigned by township (or town) governments, making it impossible to implement the state decrees in the villages, the healthy development of mass autonomy will suffer.

#### IV. Effectively Strengthen Building of Rural Cadre Contingent; Enhance Its Vitality

There is much work to be done in this respect. The current major tasks are:

1. Focusing on the building of ideology and work style and improving rural cadres' political and professional quality. Various localities should, in light of their own conditions, conscientiously solve the problems that are quite common, such as the problem that some rural cadres lack confidence in the future of socialism in China, the problem of dishonesty in performing official duties and unhealthy work styles, and the problem that the art of leadership and work methodology are not keeping pace with the new situation in rural areas. In China today, profound changes have taken place in rural economy, politics, society, and the peasants' state of mind. Many rural cadres, however, are still using a leadership style and work methodology that is seriously out of tune with these changes. They are still used to handling today's peasants, agriculture, and rural work by unitary administrative means. Therefore, it is imperative to help the broad masses of rural cadres see this new situation clearly, strive to overcome difficulties, take pains to study new circumstances and new problems, learn to employ economic, legal, administrative, ideological, and political means comprehensively, and do their work well.

2. Establishing and amplifying the system for the personnel management of cadres and fully mobilizing the enthusiasm of rural cadres. In accordance with the spirit of the Eighth Plenary Session of the 13th CPC Central Committee, attention should be directed to the building of the following systems. 1) Continuing to uphold and perfect the system for appointing township (or town) cadres. The appointment system for cadres other than township (or town) chiefs, which was established in 1983, has proven effective through years of practice. It has broadened the source of grass-roots cadres, improved the overall structure of the cadre contingent, and has made a positive impact on fostering the trend whereby cadres can be both promoted and demoted and can be placed in office or removed from office if necessary. Due to the lack of corresponding measures, however, some cadres who are on relatively long terms have worries about their future and therefore are not fully committed to their work. For this reason some localities are not sure whether they should continue with this system, and some are planning to employ all contract cadres as state cadres group by group in stages. This practice is a deviation from the orientation of cadre system reform. It is necessary to continue to uphold and improve this system. 2) Establishing and amplifying the training system. Strengthening training is an important measure for constantly upgrading rural cadres' political and professional quality and effectively accomplishing the tasks in rural work. In the course of training, it is necessary to, according to the characteristics of rural work, implement the principle of integrating study with application, providing teaching according to needs and emphasizing practical results. It is necessary to establish and amplify training networks and systems, with the party schools and cadre schools at prefectural and county levels as the main body and incorporating various types of training venues set up by the relevant departments, organizations, and townships. Substantial steps should also be taken to integrate training with employment. 3) Establishing and amplifying the remuneration system for rural cadres. It is necessary to, in a planned and systematic way, solve the problem of township (or town) cadres receiving relatively low treatment and unequal benefits. County and township governments should make necessary stipulations regarding village cadres' remuneration and should promise to honor them. For those cadres who have been assuming the chief leadership positions of the villages for a long time and have quit due to old age or for health reasons—if they have difficulty in their life, certain subsidies may be offered to them in light of the actual conditions. In localities with adequate conditions, the old-age insurance system for village cadres can be gradually installed. 4) Establishing and amplifying the selection system for rural cadres. The "Resolution" passed by the Eighth Plenary Session of the 13th CPC Central Committee pointed out that, in the future, when replenishment is necessary, the party and government cadres of townships (or towns) can be selected from among village cadres in accordance with the relevant stipulations. Attention should be given to selecting leading cadres of townships (or towns) from village and township (or town) cadres and to selecting leading cadres at the county level from the leading cadres of townships (or



towns) who have both political integrity and abilities and have outstanding official achievements to their credit. The chief leading cadres of county organs should normally have several years of experience in working in townships (or towns). It is imperative to implement this stipulation in view of the actual conditions of various localities.

3. Giving substance to the rural cadre contingent according to the principle of streamlining organizations at upper levels to strengthen organizations at the grass roots. Since the Third Plenary Session of the 11th CPC Central Committee, the institutional reform at and above the county level in China has made great achievements. Institutions have once again expanded in recent years. It is learned that, on average, the permanent institutions in each province, prefecture, and county currently exceed the stipulated figures by about 15, 20, and 10 units respectively. The number of institutions set up within departments has increased at an even higher rate. In the meantime, the authorities at various levels have set up large numbers of provisional organizations in a multitude of names. In some cases, the situation is shocking. A city in one province has as many as 131 provisional organizations, and a certain county has up to 148 leadership teams of every description. The undue upgrading of institutions has also been outstanding. With the constant increase and upgrading of institutions, the number of leading cadres also increases accordingly. The 1989 survey showed that the number of cadres at the level of provincial department and bureau in the party, government, and mass organizations at the

provincial level nationwide increased by about 6 percent over 1986, and the number of cadres at the provincial section level increased by 26.4 percent. The number of section-level cadres in some provincial organs increased by nearly 70 percent compared with when the institutional reform was going on, and the section-level cadres in nonprofit provincial institutions increased nearly four times. The institutional expansion has caused serious over staffing. It has not only undermined the efficiency of concerned organs but has also added to the state's financial burden. At present, a large proportion of counties across the country are living off financial subsidy, and some even find it very difficult to pay the cadres' salaries. In contrast to the organs at and above the county level, there is a relative shortage of cadres within the state-authorized strength in township (or town) organs, giving rise to the phenomenon of "over staffing in organs but shortage of hands in rural areas" and causing big increases in the employment beyond authorized strength in townships and towns. The "resolution" passed by the Eighth Plenary Session of the 13th CPC Central Committee proposed that party committees and governments at various levels implement the principle of streamlining administration and strengthening organizations in the grass roots, that they adopt a variety of measures, such as rotational posting, transferring cadres to lower levels, and personnel exchanges, and that they transfer some cadres to the grass roots to work. This instruction is of great importance, and must be conscientiously fulfilled.

## NATIONAL AFFAIRS, POLICY

### Ma Hong on Economic Development in 1990's

92CED0304 Beijing GUANLI SHIJI  
[MANAGEMENT WORLD] in Chinese  
No 3, 24 May 92 pp 1-5

[Article by Ma Hong (7456 3163): "Changes Facing China's Economic Development in the 1990's"]

#### [Text] Current Situation and Problems in China's Economic Movements

After three years of improvement, rectification, and in-depth reform, China's economic movements have witnessed substantial improvement. The economy as a whole reached rock bottom in 1990 and began the trend of quick recovery in 1991. While the aggregate supply and demand remained basically balanced and market prices remained basically stable, major overall economic indexes basically resumed normal levels. As of the end of 1991, major features and achievements of China's economic development can be summarized as follows:

While maintaining a basic balance, the aggregate social demand and supply showed a fairly substantial increase, and the overall price level continued to remain basically stable. According to the estimate of the Statistical Bureau, the total supply in 1991 (calculated on the basis of gross national product) increased 7 percent, higher than the 5.2 percent increase of the previous year and the 4.5 percent planned increase. The difference between the aggregate demand and supply was kept below the normal rate of 5 percent. The overall price level (calculated on the basis of social commodity retail price index) increased on the average of about 3 percent in the whole year, lower than the 6 percent planned increase.

Investment in fixed assets markedly picked up. The total amount of fixed-asset investment of the nation as a whole was to exceed 520 billion yuan for the whole year. After deducting the price factor, the actual growth was about 10 percent. Judged from the situation as a whole, things were basically normal but the symptoms of indiscriminate duplicate construction had begun to appear. We need to strengthen regulation, control, and guidance.

The total amount of exports increased sharply. Custom statistics showed that exports totalled \$71.9 billion in 1991. This was an increase of around 16 percent on top of the 18.2 percent in the previous year.

Domestic sales became brisk. In 1991 the total amount of annual social commodity retail sales reached 940 billion yuan, surpassing the planned target by 35 billion yuan and showing an increase of 13.2 percent. Among this, urban sales increased 16.1 percent, rural sales increased 10.4 percent. After deducting the price factor, actual increases were 10 and 6 percent respectively. Among the increase of urban sales, group consumption increased faster than individual consumption. Among the increase of rural sales, capital goods of agriculture increased faster than consumer goods. The increase of the sales of consumer goods remained basically stable. The capital goods market

became active. The total annual sales of capital goods of supplies departments was expected to increase about 25 percent over the previous year.

Agricultural production was fairly good. In the year of great calamity, the gross value of agricultural products increased about 3 percent. The output of major farm and sideline products was able to fulfill or overfulfill the production plan. Animal husbandry, fishery, and forestry all managed to increase continuously.

The recovery of industrial production was sped up. Industries at and above the township level maintained a growth rate between 13 and 14 percent in every quarter. The total industrial output value of 1991 increased about 14 percent, much higher than the 6 percent planned increase and the 7.8 percent actual increase of the previous year. The structure of industrial production was somewhat improved. The main improvement was that the growth rate of industries owned by the whole people rose from 3 percent of the previous year to about 9.5 percent. Fresh progress was made in readjusting product mix. After the third quarter, the realized profits and taxes of enterprises increased and losses declined as compared to the previous few months.

Economic reform took greater steps. One was to substantially raise the sales prices of fixed-priced grain and edible oil which had remained unchanged for 25 years. Another was to do away with export subsidies after adjusting downward the exchange rate and to implement a new system under which all kinds of foreign trade enterprises have power to make their own management decisions and assume sole responsibility for their own profits and losses. Still another was to formulate 20 measures for making a success of large- and medium-sized state-run enterprises. In addition, the prices of some basic industrial products and labor were readjusted, and the dual-track prices of several capital goods were merged into the same track. All localities managed to make new progress in the reform of housing, medical care, and social security systems and in the pilot reform of commodity and financial markets.

Some prominent contradictions and problems also existed in the economic movements of 1991. They were mainly as follows:

The progress of structural readjustment was slow, economic returns continued to decline, the problems of stockpiling and "triangle debts" remained very serious. Main expressions of structural imbalance were: 1) Income distribution continued to tilt to individual workers, enterprise profits declined, increasing losses formed a sharp contrast against the fairly large increase of workers' income, and the phenomenon where the wage cuts into the profit was serious. An expression of this was that the total wage bill rose about 13 percent and the wage-related cash expenditure of banks increased about 16.8 percent while economic growth was only about 7 percent. 2) The readjustment of product mix, industrial structure, and enterprises' organizational structure was slow, causing disjointment and dislocation between aggregate supply and demand and between production and consumption structures. An

expression of this was that part of the total supply was not realized in the market while the bank savings deposits of urban and rural people increased sharply.

Financial deficits expanded, the increase of loan scale and money supply was too fast, and the potential inflationary pressure increased. In 1991 the total amount of new loans exceeded 285 billion yuan, 75 billion yuan over the original plan and nearly 20 percent over the previous year. Because new loans began in the second quarter of 1990 to increase at a rate around 20 percent for 20 consecutive months, money supply exceeded the plan, thus increasing the potential pressure of inflation.

#### **Economic Forecast for 1992 and Trend of Thought for the Development of Reform**

There are two possibilities in the economic development of 1992 and the next few years: 1) The economy will maintain a steady rate of growth and gradually get into the track of normal development. 2) Undue emphasis may be placed on growth rate and the overheated situation of blind production and duplicate construction may reappear. After a certain time period, it may cause inflation to bounce back. We think that due to the current existence of distortion in the economic structure and of external expansion and internal drive in the economic system, the danger of triggering the second situation does exist. But, as long as we take past experience seriously, speed up the tempo of reform, concentrate on structural optimization, and increase efficiency while strengthening macroeconomic regulation and control and maintaining a relatively relaxed economic environment, we would make it possible for the first situation to appear.

We forecast that the national economy will continue to improve and maintain the momentum of growth. The gross national product will increase about 7 percent, total agricultural output value around 3.5 percent provided that there are no unusually serious natural disasters, total industrial output value 10 percent or more, total social fixed-asset investment around 11 percent, total social commodity retail sales around 10 percent, and overall retail price level around 6 percent.

To help the national economy switch smoothly to the track of normal development in 1992, China should, under the unified plan of the central government, give more weight to the reform, hasten the step of reform, and create a relatively relaxed macroeconomic environment for the development of Chinese economy and science and technology.

Our reform is the self improvement of socialist system, and it is aimed to build and consolidate a socialism that has Chinese characteristics and is suitable to the national conditions of China. The reform is oriented to establish a new system of the socialist planned commodity economy and an operational mechanism that combines the planned economy with regulation by market. In the process of reform we should correctly handle the relation among reform, development, and stability. The purpose of reform is to give an impetus to the development of social productive forces. This includes such factors as speed, structure,

efficiency, and distribution. Only by implementing the reform in a balanced and coordinated manner can we give a substantial boost to the comprehensive productive forces of our country. The criterion for judging whether a certain reform is correct and successful is to see whether or not it has accelerated development, not whether or not it has satisfied a certain model. Some models and theories are still being explored. They can be used to present a different point of view, but they cannot be used as a criterion for the above purpose. Both reform and development are subject to the restriction of external conditions, especially social stability. Without social stability, we will lose the basic condition of reform and development and realizing reform and development will become impossible. Therefore, we should treasure the hard-earned social stability and make it serve the speeding up of reform and development.

During more than 10 years of reform and opening up, including the rectification and improvement period, we have introduced many reform measures. Some major reforms were introduced last year. This year we should seize the golden opportunity of a new turn, put the focus of economic work on readjusting structure and increasing efficiency, and accelerate the process of furthering reform and economic development. The reality of current economic movements shows that we should pay attention to the following issues.

Stabilizing the momentum of economic recovery. Past experience shows that whether it is in the area of investment or industrial production, going all out does not last. It also can cause loss and waste. What is worse, it is damaging to furthering reform and solving more profound contradictions. Nevertheless, since the present system has the internal drive for such quantitative expansion, while the situation is improving, we still need to adopt a safe and reliable macroeconomic policy to maintain proper growth. When overall scale is under strict control, we should readjust, in accordance with the state's industrial policy, the investment structure of fixed-asset investment and tilt it to infrastructure and technological transformation. We should give priority to the continuation and winding up of construction projects and the technological transformation projects of existing enterprises and exercise strict control over new projects and the rebuilding of old projects which have been suspended. The arrangement of investment should be combined with the effort to clean up "triangle debts," and projects which lack source of funds should not be approved. The effort to tilt investment should be combined with the effort to limit production and suppress inventory. All enterprises involving in the production of restricted obsolete products must not be allowed to start a new construction project or expand. Technological transformation should also be carried out in a planned manner toward a specific goal.

Continuing to strengthen agriculture. Measures adopted to strengthen agriculture since the rectification and improvement campaign are very timely and have achieved practical results. What is noteworthy is that in recent years some reverse differences appeared between the income of urban and rural areas and between workers and farmers.



For instance, workers' income did not increase and even declined when their production increased while workers' income increased faster than their production. Sometimes their income remained the same when their production decreased. The difference between the income of farmers and urban workers was 1:2.23 in 1978. It narrowed to 1:2.17 in 1984 and expanded again to 1:2.22 in 1990. This situation resulted in a sluggish market, and the reality is that the rural market is in a slump. These problems need to be resolved. One way is to raise the procurement price; another is to encourage the crop-planting industry, including grain, oil-bearing crops, and cotton production, to properly switch from quantitative growth to high-quality and high-efficiency development. At the same time we should develop a diversified economy, vigorously support and correctly guide the development of township enterprises to increase the nonagricultural income of farmers.

Overcoming financial difficulty. Finance has been fairly tight since the reform. It appeared to be worse in recent years. Increasing deficit is bound to have many negative effects on economic development. It is also an important factor in the cause of inflation. An important reason why the proportion of revenue income in national income continued to decline is that public and private taxes are not unified. To get rid of financial problems, we desperately need to standardize public and private taxes. And in order to standardize the distribution relation between the central and local governments, between the state and enterprises, and between enterprises and workers, we should tie the local financial contract system and enterprises' contract system to work results.

Continuing to control the scale of credit. In the last three years, bank loans increased 713 billion yuan, equivalent to 67.5 percent of loan balance in 1988. In the last 20 months, the increase rate of loan reached and remained as high as 20 percent. The growth was sharp and abrupt. The annual cash supply increased more than 20 percent. Although the growth of people's savings deposits and the ample stock of commodities can alleviate potential inflationary pressure, the excessive and prolonged growth of loans will eventually cause future trouble for economic development. To prevent the expansion of inflationary pressure, the scale of loans can only be reduced, not enlarged, in 1992, and we should pay attention to increasing the use efficiency of funds.

Changing the management mechanism of enterprises. We should direct enterprises to the market and enable them to become the kind of producers and managers who have internal creativity and initiative and external pressure from market competition and who make their own decisions in management and assume sole responsibility for their own profits and losses. At the same time, in order to create external conditions for enterprises to engage in fair competition, we also need to carry out price reform in a vigorous but safe manner. We should continue to raise the prices of labor and other basic products such as energy, raw materials, communications and transportation, and grain, readjust the sales prices of

grain and other subsidized consumer goods, speed up the merging of the dual-track pricing system of capital goods, and continue to decontrol the prices of consumer goods whose supply and demand are basically balanced and have greater flexibility. We should also push reform in the housing system, starting with raising rents, and vigorously carry out reforms in social security, wage, labor, financial, and banking systems.

#### Issues Concerning Science and Technology and Economic Development

Science and technology is productive force. This is a basic viewpoint of Marxism. More than a hundred years ago, Marx already clearly pointed out: "Productive force also includes science." "The primary labor and productive force of society is the power of science." Comrade Mao Zedong also had similar ideas. In 1963 he stated: We must fight the battle of science and technology and we must do a good job. Comrade Deng Xiaoping reiterated this basic view of Marxism at the 1978 National Rally of Science. In 1988 he again summarized the trends and new experience of world science and technology and economic development after the World War II, especially after the 1970's and the 1980's. He clearly set forth the correct thesis that "science and technology is productive force and it is also the primary productive force." This thesis enriched and developed the Marxist theory on science and technology and productive force and revealed the primary changing function of science and technology in the progress of contemporary productive force and social economic development. It is of extremely great and far-reaching significance to China's socialist modernization.

In the past century, the classic theories of proletarian revolutionary teachers and older Chinese proletarian revolutionary teachers on science and technology and social productive force have been proved by scientific and technological (S&T) progress and the historical process of economic and social development. They have been proved especially by the enormous impact made by the new S&T revolution, which is surging throughout the world, on the production and life style and the thinking of today's human beings. We have realized clearly: Science and technology has an increasingly closer tie to economic activities. The development of high technology has changed the industrial structure and economic patterns of all nations. The difference between the economic development levels of developed and developing nations is mainly one between the levels of S&T discovery, development, and application. Today, no country or region can stay away from the trend of S&T development, nor can a country or region not look to science and technology to accelerate economic and social development. Because of this our party set forth the policy that "economic construction must rely on science and technology and science and technology must be oriented to economic construction." Recently, especially during the Seventh Five-Year Plan period, Chinese science and technology has made progress in all of the three levels: facing the main battle field of economic construction, following the development of high technology in the world, and carrying out basic and applied studies. A number of

scientific plans covering these three levels, such as "the plan to tackle key S&T problems," "the bumper harvest plan," "the Spark Plan," "the state plan to popularize key S&T achievements," "the prairie fire plan," "the 863 plan," and "the torch plan," the State Natural Science Fund, and other basic research plans are being carried out smoothly. The contribution of S&T progress to economic growth is increasing daily. Society as a whole has a growing understanding that science and technology is the primary productive force. These promising changes have laid a solid foundation for further development of China's economy.

Now that the rectification and improvement period is over, China's economy is striding forward towards the second step of the strategic goal. To achieve high-quality development of the national economy under so many pressures of population, resources, environment, and demands in the Eighth Five-Year Plan and the Ninth Five-Year Plan periods, we must put more emphasis on relying on and mastering this most powerful weapon of science and technology.

In light of the progress of reform in the last 13 years and the current situation of such factors as China's S&T capacity, industrial structure, capital reserve, and human resource, and for the purpose of better combining the planned economy with market regulation and of linking science and technology to economic construction in the eight to nine years before the turn of the century, we bring to your attention the following issues:

#### **Injecting High Technology To Improve the Component of Industrial Technology.**

High technology gradually replacing obsolete technology is the objective law of technological development. It is an irreversible, general trend. It is this kind of replacement that has accelerated industrial advancement and economic growth. The process of development in many countries and regions shows that absorbing, disseminating, utilizing, and modifying existing high technology to rapidly replace seriously backward obsolete technology so as to speed up the improvement of domestic and local technological component is an effective way to develop the domestic economy. Regarding the injection of high technology, our industries and enterprises should make timely and resolute decisions to utilize selectively and emphatically the latest S&T achievements which can increase productivity and economic returns, thus enabling China's industries to markedly improve their technological component in the 1990's.

#### **Developing Hi-tech Industries To Speed Up the Optimization of Industrial Structure.**

In the last 20 years, hi-tech industries have made extraordinary development in various developed and newly industrialized countries and regions. Several modern industries which have high technology content and high added-value are now upgrading and optimizing the industrial structure of these countries and regions. Currently China's industrial structure is still very backward, which is not conducive to the further development of the national

economy. To help upgrade as soon as possible China's industrial structure, in addition to fully utilizing high technology to reform traditional industries, we must emphasize the need to cultivate and accelerate the development of hi-tech industrial departments which are based on high and latest technology.

#### **Strengthening Technological Renovation To Make Industries More Competitive.**

Current science and technology and economic growth are propelled essentially by continuous technological progress. Technological progress is improvement in the technological capacity of industries and the quality of economic growth propelled by a series of technological renovation activities. Technological renovation is the source of S&T progress and economic growth. In a broad sense, technological renovation is not merely invention and discovery activities in the field of science and technology. Instead, it is a comprehensive phenomenon involving all fields of science and technology, economy, and society. It has an indispensable propelling function in regard to intellectual production, material improvement, and ideological molding. The economic vitality of a country and region is determined to a large extent by its ability to carry out technological renovation. Many countries are establishing and strengthening the system of technological renovation to make their industries more competitive. China too needs to create and establish a good overall environment to encourage renovation, make great efforts to encourage S&T progress characterized by technological renovation, and enable China's industries to become more competitive in an all-round way in the international market.

#### **Supporting S&T Development and Increasing the Input of Whole Society in Science and Technology.**

"Revitalizing province with science and technology," "revitalizing city with science and technology," "revitalizing agriculture with science and technology," and "revitalizing the chemical industry with science and technology" have been brought up one after another in recent years. It has become a general practice to regard science and technology as a major strategic measure for revitalizing areas, industries, and businesses. This shows that all fields have recognized the role of science and technology in economic and social development. This is an important change in the way of thinking. Among some Chinese industrial groups and S&T enterprises, there have been precedents where material and intellectual production was increased by increasing S&T investment. Now we need to request the support of whole society for S&T development and gradually increase S&T investment through all channels such as state, region, industry, business, and enterprise to stimulate science and technology to make greater contribution to China's economic and social development.

#### **Creating Necessary Conditions To Bring Into Play the Enthusiasm of S&T Personnel.**

S&T personnel are the carriers of science and technology and the leading force for developing and applying science and technology. The basic quality and mental condition of

S&T personnel have a direct effect on the quality and efficiency of S&T work. China is a developing country. It cannot compare with developed countries in regard to S&T equipment and capital investment. But China should and is able to create a social environment that supports S&T activities, respect S&T personnel, and protects S&T results. Under the difficult condition of state finance in the past few years, China has adopted some concrete measures to improve the working, studying, and living conditions of S&T personnel. However, generally speaking, there is still much to be desired. In the future, the party and the government will create more necessary conditions to allow the broad masses of S&T personnel to put their talent to good use. The Chinese S&T contingent, which has been tempered and grown through hardship, will definitely give full play to their initiative and creativity in the great cause of fulfilling the second step of strategic goal and make new achievements for our state and people.

### Article Reviews Reform of Material System

92CE0606A Beijing JINGJI RIBAO in Chinese  
3, 6 Jul 92

[Article in two installments by own reporter Sun Gang (1327 0474): "Comments on the Reform of the Materials System"]

[5 Jul 92 p 1]

[Text] From "Emperor" to "Commoner"

Now that countless enterprises are completely free to decide on their own purchases and sales, in conformity with market needs, one really hates to think again of the experiences of the past.

Five years ago, the odd way of conducting purchases and sales between some industrial enterprises in Shenyang attracted the serious attention of the State Council leadership. The Shenyang Electric Cable Works and the Shenyang Smelting Plant are a pair of enterprises manufacturing upstream and downstream products. Both are located in the Tiexi district and separated from each other merely by a wall. However, the cable works had to ship in their raw materials from far away Yunnan (instead of obtaining them from its neighbor that could supply them). The reason is very simple: the two don't belong to the same "system."

Similar cases could be found everywhere under the traditional materials system.

Since the founding of the PRC, China has practiced a system of goods and materials management primarily dominated by the state plan. Control of all means of production was in the hands of the state, the local authorities, and the departments in charge of the various lines of trade, and the practice was one of unified plan allocations, a process in which enterprises had no power to participate.

Whenever a socioeconomic system is newly introduced, and when there are still no positive experiences yet to follow, understanding of such new methods frequently bears a subjective bias. At such times it is always felt that the more power is concentrated in one's hand, the better.

In 1950, only eight categories of materials had been subject to state plan allocations. By 1953 these had increased to 227 categories, subsequently increasing every year, so that by 1981 the number of goods and materials allocated by the state and by government departments had increased to 837 categories; almost everything that could be controlled was plan controlled.

Since everything was in this way fully under control, it could be assumed that the enterprises found themselves relieved of all worries, allowed to do whatever they wanted to do, while ultimately letting the state take all responsibility, whether products turned out good or bad. In actual fact, however, this was not altogether the case. There was indeed the mentioned relief from anxieties, but on the other hand there was then also a wasteful expenditure of energy. The plan required that level by level applications had to be filed, reports submitted and approval awaited, norms had to be drawn up, passed on, and transmitted to lower levels, level by level. "Each procedure has its door, and inside each door there sits a mighty deity," was a saying. In the eyes of the enterprises, the administrative departments charged with the management of goods and materials were truly like those most sublime "emperors," in that they held all powers over life and property of the enterprises.

As this kind of unitary plan system was allowed to continue and to develop, its evils became exposed and were made increasingly evident. Enterprises became controlled to an unbearable extent and bereft of any vitality to strive for survival and self-development. The direct consequence was that products remained the same for many years, materials and fund turnover became sluggish, and extremely serious wastage of every kind set in. During only the four years from 1981 to 1984, China's 28 provinces and municipalities, as well as enterprises under the direct control of the central government, reported the discarding of mechanical and electrical products to the value of 14 billion yuan, and 2.7 billion yuan of materials of this kind were disposed of at reduced prices. Discarded steel products amounted to 35,000 tons, while 220,000 tons were disposed of at reduced prices, resulting in a net loss of as much as 15.36 billion yuan. The huge proportions of these losses are felt as very painful.

The whole nation, high and low, unanimously cries out for a change of this situation. However, the materials system is one of the important features of the state's political-economic system, and it is easy to imagine the risks and obstructions whenever a move is made to reform it. The road is endless and the remedy is remote, the road in search of remedial action will be arduous and tortuous.

A move in this matter of reforming the materials system began with the ceding of powers to the enterprises. In May of 1981, the State Council formulated a resolution allowing the enterprises to market themselves part of their products, after plan requirement had been fulfilled. In 1984, the key steel enterprises throughout the country freely sold by themselves 9.6 percent of their total output, and in the case of the large- and medium-sized ones



works this figure was 8.8 percent. Although the figures appear small, they at least broke through the "zero" mark.

At that time, the state and local materials departments at various levels also repeatedly carried out certain partially effective remedial manipulations on the plan control method:

—*They widely permitted placing orders for the manufacture of goods under plan control.* With the exception of motorcars, electricity generating sets, and industrial boilers, starting in 1980 this method was applied to the remaining 77 items of electromechanical products under centrally controlled unified distribution. It was also applied to 76 of the 83 items of nonferrous metal materials, four of the nine items of materials and products of the chemical industry, and to all Category II mechanical and electrical materials. All enterprises could from then on organize their production according to social demand.

—*Verifying supply according to need.* In view of the actual situation at some business and institutional entities using small quantities of a great variety of products, something that made planning rather cumbersome, some local authorities changed past procedures, when applications had to be made level by level and norms issued to lower levels, to a method of letting the materials control departments on the spot verify supplies. According to surveys in the three municipalities of Changsha in Hunan Province, Zhuzhou, and Hengyang, the said method resulted in a saving of 17 percent in steel consumption, as compared with the former distribution norms, apart from the fact that it also greatly simplified procedure.

—*Contracting comprehensively for all supplies needed for a project.* Allowing single users, or combined users of materials required for key construction projects, to contract comprehensively for all needed supplies. This method not only brought production and requirements closer together, but also promoted a rational disposition among the various types of materials. An investigation up to 1987 tracing these developments showed that of the 795 key projects under contract, 650 had gone into operation on time or ahead of time; furthermore, in these cases, output values and profit-tax amounts had generally been above average.

—*Organizing circulation according to economic regions.* The former Chinese practice of long standing of setting up supply systems according to administrative jurisdictions was extremely irrational. It resulted in roundabout shipments and multiangular circulation of extremely serious dimensions. By revising the circulation channels according to economic regions, it was, for instance, in Anhui Province, possible through a rational flow pattern to redirect materials supplies of seven districts to four cities, which immediately saved over 2 million yuan in freight for steel products. For three counties and cities near Ningxia, Shaanxi Province has changed the former

supply of goods from Xian to a supply of goods from Yinchuan, which has shortened the line of transportation by almost 1,000 km.

Just at this time, when the materials departments were very cautiously and gently feeling their way in the exploration of possible reforms in the plan system, the commodity economy swept in and invaded every crevice like mercury dropped on the floor.

Since 1979, markets for means of production have sprung up, first at such places as in Sichuan Province and at Shanghai. There, enterprises can market their products themselves or through the agency of the trading center. They can come to market with new products, while also having an opportunity to liquidate overstocked goods through cheap sales, without being encumbered by administrative divisions, restrictions by trade control departments, and the particular ownership system of the enterprise in question. At Shanghai's market for means of production alone "intimate relationships" have been established within the short time of a few years with materials supply departments in over 100 cities, and over 2,000 industrial and mining enterprises have become its "honored guests."

The start of output-related contracting and the establishment of township and town enterprises in the rural areas has also rapidly raised the demand for means of production. In 1987, there had been as many as 10,700 network terminals for the supply of means of production in the rural areas, with total sales amounting to 14.18 billion yuan, which was a 58.4 percent increase over 1985, and a growth rate that exceeded the rate for nationwide materials sales during the corresponding period.

During that period of time, adjustments in state policy played a decisive role. In 1984, the state permitted enterprises to market products beyond plan requirements at a price varying by 20 percent from the plan prices. This dimensional restriction was cancelled the second year thereafter, and prices for the sale of products produced beyond plan requirements were freed completely, to be sold at whatever the market quotations were. It was for the first time in 1987 that the mandatory plan for materials under unified state control was reduced on a large scale, the number of such items being cut from 256 in 1980 to only 27 items, with a corresponding reduction in the quantities of centrally allocated items. The share of the market immediately grew very much larger, and objectively demanded a new circulation organization and new trading places. In this respect, the state-run materials departments did not shirk their responsibility and through several years of effort established materials trading centers in various key cities, creating an organizational structure that possesses a certain capability to assemble and distribute materials and spread them in all directions. By 1987, the number of nationwide materials trading centers had grown to 395, over three times their number in 1984.

Perceptive persons will perhaps by now have observed that the obvious trend in China's materials circulation is that there is less and less of the plan element and a rapid



development of the market element. The position of "emperor" of past days is beginning to be dismantled, in front of the market mechanism, all people are equal, are common "commoners." In 1987, the nationwide materials system marketed products to the value of 156.7 billion yuan, in which amount the extra-plan portion already accounted for over half.

In view of all this, some people have ventured the conclusion that China's materials circulation has begun to assume the embryonic form of a market. However, faced with the complex situation in which there coexist two kinds of material resources and two kinds of prices, namely those of the plan and those outside the plan, the task of reforming the materials system is bound to be an extremely arduous one, and all lines of trade involved in materials management are bound to meet new challenges.

[6 Jul 92 p 1]

*[Text] Approaching a New Starting Point*

Some have said that there were two pillars supporting China's traditional system of planned economy: 1) investments, and 2) material resources.

Perhaps the materials system was too important in its effects on the national economy, had to be dealt with most cautiously, so that it is only at this time, when the reform of the Chinese economic system enters its 10th year, that the reform of the materials system is taking a very decisive step forward.

In 1988, the State Council approved implementation of the "Plan for Intensified Reform of the Materials System." The plan prescribes that in the in order to adjust the materials management structure and have one relevant authority, a Ministry of Materials should be established, transferring former supply and marketing organizations in various important industrial departments and institutions to this ministry. At the same time, the 316 items of materials under mandatory planning were reduced to 45 items. For the remainder the procedure was changed, having the state place orders by contracts, having production meet demand, and by generally opening up for free buying and selling. In this way—with the addition of 27 new items to be unifiedly distributed by the state—altogether 72 items would be subject to mandatory planning. This, then, means that items presently under mandatory planning are only one-tenth of what they were in 1981.

The purpose of creating the Ministry of Materials is very clear; its main duties are to exercise comprehensive control over all important materials, including those under plan control, throughout the entire society, while concurrently developing markets for means of production, and stimulating circulation. It is obvious that the materials-related trades must give consideration to both these sectors at the same time.

Following the large-scale shift of materials from plan control to market control, the small segment of plan items originally retained for key construction projects and state reserves would then appear especially valuable. However,

"flowers will die, do what one may." Already, the present plan-related measures can no longer be compared to what existed in the past.

As enterprises have been adopting the contract system and local authorities are adopting their own separate methods, the state, now faced with multiplicity of interests, will find it increasingly difficult to enforce mandatory planning. During the last few years, it has become an increasingly serious situation that materials under unified state control, even though allocated, could not be ordered; even when they were ordered, they could not be obtained. By 1991, the state's contractual orders for 18 items of materials under unified state control, which were listed in the state's statistical evaluation, were not filled, and the rate to which two-thirds of these were fulfilled was lower than in the preceding year, making this the worst year in history.

"Mandatory" is just about to become equivalent to "unworkable" (a Chinese pun that cannot be repeated in English). To a certain extent the state plan has become an empty shell.

The authority of the much respected state plan had at one time been a very powerful voice. In August of 1990, a newspaper of the capital disclosed the fact that that year's orders for steel under plan allocation had been below the normal level, and that product types and specifications had been unsuitable for actual needs. The paper also pointed out that enterprises should not privately sell high quality goods at high prices, while filling the state quotas with materials of inferior quality. This immediately elicited a vigorous reaction from the administrative departments in charge of enterprises and production. They sent three highly placed cadres to the newspaper to give detailed explanations, and this was done with firm resolve and with great sincerity, presenting all the reasons which, under the large heap of current state policies, were completely comprehensible to everyone concerned.

Getting to the root of the matter, the true "culprit" that creates this kind of contradiction is the "dual-track system" of pricing.

Since extra-plan prices were all decontrolled in 1985, the dual-track prices became a unique phenomenon in China's economic life. It must be admitted that this was a breakthrough in the ossified system in those days when prices were mainly set by the state, as it also induced the enterprises to effect changes in the mechanism of their business operations. However, as there are different prices for the same product, objectively, this is bound to induce enterprises to ponder—since there is this disparity between plan and extra-plan prices—whether and how much of the mandatory plan to fulfill. When the disparity is large, they will try every possible means to delay deliveries to the state. The only way to basically solve the problem would, therefore, be to get all prices on a "single track." Most believe that dependence on the market and, ultimately, to realize uniformity of prices would mean completely abolishing all plan-control of materials, which for the time being, and before having come up with any suitable substitute device, would be impossible to do.

However, explorations and efforts in this respect by the specialized materials departments at all levels have never stopped.

Starting in 1988, the Ministry of Materials solicited the support of the Ministry of Metallurgical Industry in launching a pilot project for the stabilization of the supply-demand relation between certain large-scale enterprises, namely among key steelworks and motorcar manufacturers, to determine the two parties in the supply-demand relationship and the specifications and quantities of the extra-plan materials; prices would then have to be negotiated by the two parties themselves. In this way, market methods are employed to supplement the defects of plan methods, and the two methods were thus organically integrated in a successful practice.

In Suzhou and in Shenyang, there emerged at the opportune time two materials trading conglomerates. Wuxi also came up with a completely new circulation pattern. Their emergence was like a whiff of pure and fresh air to the materials trades, who were painfully exploring new ways. The materials trading conglomerate in Suzhou was a comprehensive economic entity on the model of the Japanese comprehensive trading companies. By way of investments, holding company operations, mutual equity participation, and other such forms, they gathered together over hundred enterprises from various districts and various levels. Their total assets exceed 200 million yuan, which gives them considerable capabilities. The main characteristics of this type of conglomerate is the broad scope of its business operations, apart from means of production, there is almost nothing that it does not deal in, e.g. sections of consumer goods, hotels and tourism, industrial development, leasing of real estate, etc. At one time the Benxi Steelworks were in urgent need to sell a large lot of steel products, which was actually needed by a plant in Changshou manufacturing cold-rolled steel strips, but the Changshou plant did not have the money to buy, while, again, an automobile factory in Nanjing required the products of the Changshou plant. Faced with these production-consumption linkages, the Suzhou conglomerate first advanced some start-up funds to the Changshou plant, and on its behalf placed the order with the Benxi plant, and then asked the Changshou plant to start the production that was needed by the Nanjing car manufacturer. This was "hitting three birds with one stone," and each enterprise involved got out of its dilemma. In conclusion, activities of the Suzhou conglomerate comprise ten or so types of business operations, which include providing services as intermediaries, providing commodities under plan, compensation trade, processing and remodeling, etc. and thus exceed by far circulation functions in a narrow sense. It must be regarded as a regulatory organization for all possible occurrences and functions in the activities of enterprises.

If Suzhou and Shenyang materials conglomerates are said to combine enterprises into entities to gain the benefit of

comprehensiveness, the Wuxi enterprise relies on scientific organization to accommodate enterprise ability to supply and marketing to the needs of society. Wuxi has been practicing the reform of "allocation deliveries," (peisong 6792 6623) for only two years now, but its success is indeed fully evident. After allocation deliveries had been instituted, the average stocks held by key coal consumers has dropped 40 percent, and some have stopped without keeping any stocks in storage. Available statistics prove that for each yuan of capital investment, the materials departments, storage costs of production enterprises can be reduced by 2 yuan. At present over 20 cities nationwide are actively promoting materials allocation deliveries.

The materials sectors in Suzhou, Wuxi, and other places are to 90 percent dealing with extra-plan materials, but due to the comprehensive spread of business operations and the socialized services provided, materials circulation has become extremely brisk. This explains precisely that in comparison, materials circulation and the domains of production and commercial circulation each have their own unique peculiarities.

In all developed countries of the world, circulation of the means of production mostly exists as an independent line of trade and behaves as such. In comparison, in China the domain of materials circulation is lagging far behind contemporary standards, its most conspicuous shortcoming being those extremely odious barriers between higher and lower levels and between different departments and regions, which make it impossible to achieve a unified market and returns to scale. In the domain of materials circulation, there presently coexist, apart from specialized agencies, a number of various components, such as production enterprises, administrative departments in charge of production, as well as individually, collectively, and privately run businesses. The presence of these many channels, although to a certain extent beneficial for competition, gives rise, because of divergent fundamental interests, to many shortcomings, such as tendencies to shift one's own vexing problems to others, holding each other back, and to holding on protectively to backward practices. According to statistics, the proportions of the market taken up by the above-mentioned four channels are 33, 50, 20, and 12 percent, which shows that the "selfproduction-selfmarketing" component of enterprises accounts for a considerable proportion. However, because the extent of socialization and specialization is unduly limited in this method, the result is that circulation effectiveness is clearly below that of specialized materials circulation departments. We understand that a single yuan available as working fund in the specialized circulation departments can produce turnover benefits of 6.7 yuan in materials circulation, but in the supply and marketing departments of the production enterprises it would at most be 2 yuan of benefits. If the national economy is to steadily advance over a long period of time, it is therefore necessary to do away with the present situation in the circulation sector, and to institute a modernized, socialized materials circulation venture.

**Economic Statistics for July**

92CE06928 Beijing JINGJI CANKAO BAO in Chinese  
17 Aug 92 p 1

[Own report: "July: Improved Quality of Economic Operations—Industrial Production and Sales Were Well Adjusted, Economic Efficiency Continues To Rise—During Off Season No Slackening in the Domestic Market, Imports and Exports Continue Brisk"]

[Text] According to the monthly report on the state of the economy by the State Statistics Bureau, the national economy continued its high-speed growth during July while at the same time improved the quality of its operations. The rate at which industrial products were sold was very high, and economic returns continued to improve.

The gross output value of village industries and of industries at higher than village level during July nationwide was 21.8 percent higher than in the same month last year. The aggregate value for the period from January to July was 19 percent higher than that of the same period last year, and in this figure, light industry accounted for a 16.9 percent increase and heavy industry for a 21 percent increase. Industrial production exhibited the following four favorable tendencies:

1) Production and sales became well adjusted and approached normal levels. The value of industrial sales during the said month was 24.3 percent higher than in the same month last year, and was 2.5 percentage points higher than the rise in production. Products sold at the rate of 96.4 percent, which was 3.3 percentage points higher than in the same month last year, and 2.2 percentage points higher than in the preceding month. In this figure, the rate at which products of the heavy industry sold was 97.5 percent, and the same rate for the light industry was 94.9 percent.

2) Economic returns continued to improve. During the period from January to July, state-run industrial enterprises within the state budget achieved 91.6 billion yuan of profits and taxes, an increase of 17.9 percent (in this figure, profits had been 17.1 billion yuan, an increase of 23.6 percent). At the end of the month, the scale of unprofitable enterprises was 32.2 percent, a reduction of 4.6 percentage points compared with the same time last year, and 0.3 percentage points less than in the preceding month. Funds in finished products amounted to 138.1 billion yuan, which was 600 million yuan less than in the preceding month.

3) Production of large- and medium-sized industrial enterprises maintained a high-speed increase.

4) Production of sources of energy and of raw and semi-finished materials has been somewhat accelerated.

July is usually a slack season for marketing and sales, but the month proved relatively brisk this year. Retail sales of social commodities in the said month amounted to 84.7 billion yuan, a 15.2 percent increase over the same month last year. In this figure, the increase of retail sales of consumer goods was 72.9 billion yuan, an increase of 16.6 percent.

Continued growth was maintained in import and export trade. In July, total exports amounted to \$7.16 billion, a

12.2 percent increase over the same month last year. The total value of imports was \$6.27 billion, an 18.7 percent increase.

Investments in fixed asset increased very vigorously. During the said month, units owned by the whole people nationwide completed fixed asset investments to the value of 35.5 billion yuan, an increase of 42.2 percent over the figure for the same month last year. The aggregate figure for the period from January to July showed an increase of 35.6 percent over that of the same period last year, and in this figure capital construction increased 29.3 percent, and renovations and transformations increased 42.5 percent.

The State Statistics Bureau pointed out that attention must presently be paid to some factors of instability: restraints by the limited amount of resources will gradually become severe, and shortages in transportation facilities will become more conspicuous; with the sharp increases in fixed asset investments a large number of new projects will be started, which may structurally not at all be rational; strong tendencies of various kinds and great pressure for granting loans and issuing of currency; the temporary decline in commodity price increases in large- and medium-sized cities may possibly again be followed by a rising tendency.

### **Regulations on Managing State Assets Under Shareholding**

92CE06734 Beijing JINGJI RIBAO in Chinese  
11 Aug 92 p 2

[Regulations issued through the XINHUA by the State Administration of State Property and the State Restructuring of the Economic System Commission on 27 July 1992: "Interim Regulations on the Management of State Assets by Shareholding Pilot-Project Enterprises"]

#### **[Text] Section 1. General Rules**

**Article 1.** These regulations were drawn up to standardize the management of stock rights to state assets in shareholding pilot-project enterprises, and to protect shareholders legal rights and interests.

**Article 2.** Management principles for state assets in shareholding pilot-project enterprises:

1. In order to implement the policy of developing shareholding enterprises with mostly public ownership, shareholding pilot-project enterprises with state stock control must ensure the dominance of state-assets shares in their enterprises.

2. The exercise and transfer of stock rights to state assets must conform to state requirements on the guaranteed value and proliferation of state assets.

3. In shareholding enterprise pilot projects, dividing up of state assets or encroachment on state interests is not permitted in any form.

4. Management of shareholding pilot-project enterprises must adhere to the principles of the separation of government administration from enterprise management, the proper separation of ownership from management, and the separation of the government's public administration function from the state's ownership function.



5. A strict responsibility system must be established for the representation of stock rights to state assets.

**Article 3.** In the organization and establishment of shareholding pilot-project enterprises, shares generated from state assets (including those generated through the reorganization of state-owned enterprises into shareholding pilot-project enterprises) can be broken down into state shares and state corporate shares according to stock rights management differences.

State shares are formed through investment of state assets by government departments or organs, which have the authority to invest on behalf of the state, in shareholding pilot-project enterprises (including existing shares that have been converted from state assets and invested in enterprises).

State corporate shares are formed through investment of state assets by state-owned enterprises, which are entrusted by the state with independent management decision-making power, in their own independent shareholding pilot-project enterprises.

State shares and state corporate shares are both state-owned and referred to as state-assets shares (abbreviated as state shares).

**Article 4.** The State Administration of State Property (SAOSP) is the government organ that has the specific duty of managing state stock rights, and which legally exercises the function of managing state stock rights.

Units that hold state shares are subject to guidance, oversight, and examination by the SAOSP.

The SAOSP must manage state corporate shares through legal procedures, in order to ensure and protect the economic rights and interests and management independence of the units that hold them.

**Article 5.** In the organization and establishment of shareholding enterprises or the reorganization of state-owned enterprises into shareholding pilot-project enterprises, experimental limits and stock rights structures and offerings must conform to the "Regulations on Shareholding Enterprise Pilot Projects" and other relevant provisions.

## **Section II. Management of State Shares When Shareholding Enterprises Are Established**

**Article 6.** State-share offerings must be confirmed by the SAOSP or organs that it authorizes. In the conversion of state assets into shares or the reorganization of state-owned enterprises into shareholding pilot-project enterprises, the SAOSP must participate in the examination and approval at the national, provincial, autonomous regional, or municipal level.

**Article 7.** Shareholding pilot-project enterprises that are organized or reorganized and established with investment of state assets must conduct assets appraisals and ownership clarifications of invested state assets, in addition to undergoing formalities to confirm the results of assets-value appraisals and ownership clarifications to the SAOSP.

Assets appraisals should be declared according to the regulations issued in the *Rules on the Management of State-Assets Appraisals*, and qualified assets-appraisal departments should be hired to make them.

State-assets ownership clarifications should be conducted according to the *Interim Regulations on Enterprise State-Assets Ownership Clarifications* issued by the SAOSP, the Ministry of Finance, and the State Administration for Industry and Commerce.

**Article 8.** Once assets appraisals and ownership clarifications are confirmed, enterprise overall state-assets value should be reorganized into original enterprise book value and state funds according to the "Accounting Regulations for Shareholding Pilot-Project Enterprises" printed and distributed by the Ministry of Finance and the State Restructuring of the Economic System Commission, for conversion into state-share stockholder rights and interests.

The use of state assets for conversion into shares, conversion into shares for sale, or turnover for investment should undergo the formalities concerning state-assets property-rights registration in the "Trial Regulations on the Management of State-Assets Property-Rights Registration" and their detailed implementation rules and regulations. State-assets property-rights registration forms are proof of state-share assets credit, and important documents for industrial-commercial registration.

**Article 9.** In the reorganization of state-owned enterprises into shareholding pilot-project enterprises, the following actions are prohibited: using state assets to offer shareholding enterprises' own "enterprise shares" or "employee collective shares"; converting state assets without compensation into accumulation or public welfare funds owned jointly by all stockholders in shareholding pilot-project enterprises; setting aside more efficient state assets (such as stores, factories, or workshops) for employee shareholding alone; turning over without compensation or at low prices enterprise name-brand, hot-selling, or high-profit products to employee shareholding in pilot-project shareholding enterprises; giving free or selling below the public offering price enterprise shares to enterprise employees or others; taking any other actions that would infringe on state-assets rights and interests.

**Article 10.** In the reorganization of state-owned enterprises into shareholding pilot-project enterprises, when floating shares to raise capital by issuing stocks with the spillover-price method, the face value of shares converted from state assets can be slightly lower than the overall state-assets value confirmed by the assets appraisal. But while this spillover-price income from the difference in stock offering price can be regarded as a capital accumulation fund, it must not infringe on the rights and interests of state-assets owners.

**Article 11.** When state-owned enterprises are reorganized into shareholding pilot-project enterprises, the assets of enterprise nonoperating components, such as employee living quarters, kindergartens, and hospitals, that are not converted into shares remain state-owned, must be

appraised and cleared up. With the approval of finance and SAOSP units at the same level, these nonbusiness assets can either be run as economic units independent from the shareholding enterprises, or entrusted to the reorganized shareholding pilot-project enterprises for special management or compensated use.

### **Section III. Control of State-Share Stock Rights and Stock Representation**

**Article 12.** Shareholding pilot-project enterprise state-share stock rights operate according to the principle of control by investors, while being subject to guidance and oversight by the SAOSP.

Transfer of state-share stock rights without compensation to nonstate-owned economic components is subject to examination and approval or submission to the government for approval by the SAOSP.

Conversion into stocks-for-sale of state assets in large- and medium-sized key state-owned enterprises must be submitted to the SAOSP at the higher level or the government for examination and approval.

**Article 13.** The SAOSP can commission stock-control companies, investment corporations, enterprise group parent companies, corporations that are economic entities, and certain specially designated departments to exercise state stock rights and designate stock representatives according to legal procedures. With the approval of the State Council or people's governments at the provincial, autonomous regional, or municipal level, the SAOSP can also designate stock representatives according to legal procedures for enterprises that hold state shares. The rules on designation of state stock representatives will be drawn up and strictly enforced by the SAOSP and personnel departments. State corporate-share representatives will be designated by corporate investor units.

**Article 14.** State stock representatives must protect the legal rights and interests of state shares, and take clear responsibility for the guaranteed value and proliferation of state assets. Stock representatives must be of high political, ideological, and policymaking quality, have the administrative decisionmaking and management capabilities to conscientiously perform their duties, ensure stock equality among state shares and other shares in enterprises, and make sure that there are equal profits for similar shares and sharing of both profits and risks.

**Article 15.** We have set up a reporting system for state stock representatives. In addition to making regular work reports to the designated units, state stock representatives must request instructions in writing before making the following crucial decisions that involve enterprise operations:

1. Appointing members or key officers of company boards of directors.
2. Decisions on key investment and operating directions and methods.
3. Raising capital or issuing corporate bonds.
4. Profit distribution decisions.

5. When loans against assets are to exceed one-third of enterprise net assets.

6. Other crucial matters that involve state-share rights and interests.

Requests for instructions by state stock representatives to designated state stock representative units must be replied to promptly and responsibly, so that no operating losses are caused due to delays.

**Article 16.** We will establish regulations on job proficiency assessment, rewards and penalties, and oversight of state stock representatives.

### **Section IV. State Stock Income, Transfer, and Accounts-Settlement**

**Article 17.** State-share dividend income will be collected by the SAOSP and sent under guard to the national treasury, to be legally included in the national construction budget and planned and used according to overall state planning, with no units or individuals being permitted to intercept and keep or refuse to hand it over. State corporate-share dividend income will be collected by the corporate units that are the direct share investors.

**Article 18.** Based on the provisions of national laws and regulations, and with the approval of the SAOSP or its authorized agents, when state-owned enterprises are converted into shareholding pilot-project enterprises, income from the sale of state assets converted into shares will be collected by the SAOSP and sent under guard to the national treasury, to be legally included in the national construction budget and planned and used according to overall state planning, in support of enterprise production developments.

**Article 19.** When changing percentages of state stock rights in shareholding pilot-project enterprises under state stock control, state stock representatives should report to the SAOSP or its authorized agents for joint examination and approval with the departments concerned according to state provisions, before proceeding. Changes of percentages of state stock rights in other shareholding pilot-project enterprises should be submitted for examination and approval to state stock representative designated units. The state will make other regulations on the sale to foreigners of shares converted from state assets.

**Article 20.** Remaining assets after bankruptcy or final accounts-settlement of shareholding pilot-project enterprises will be dealt with by the SAOSP or its authorized agents and share-investment units according to state regulations.

### **Section V. Oversight and Sanctions**

**Article 21.** Units holding state shares must take proper care of stock or other stock certificates. The SAOSP is authorized to audit the management and administration of state stock rights, and audited units must not practise fraud or any form of refusal or evasion.

**Article 22.** As to units or individuals that violate these regulations and cause losses to state assets, the SAOSP is authorized to report to or act jointly with the departments

concerned in taking economic and administrative disciplinary actions. The criminal responsibility of those who violate the criminal law must be investigated and affixed according to law.

**Article 23.** As to workers in the SAOSP or its authorized agencies and state stock representatives who take advantage of their powers of office for private gain or are guilty of dereliction of duty that causes unnecessary infringement on the rights and interests of state assets, the SAOSP or its authorized agents must take economic or administrative disciplinary actions. And the criminal responsibility for violations of the criminal law must be investigated and affixed according to law.

#### Section VI. Supplementary Articles

**Article 24.** These regulations apply to the management of state shares in limited-liability companies and limited-liability shareholding corporations.

**Article 25.** These regulations are subject to interpretation by the SAOSP.

**Article 26.** These regulations take effect on the day that they were issued.

#### Economist Analyzes Current Investment Scales

92CE0692A Beijing JINGJI CANKAO BAO in Chinese  
11 Aug 92 p 4

[Article by Wang Yinan (3769 0001 2808), Investment Department, State Statistical Bureau: "Assessment of the Present Scale of Investments"]

[Text] Since the start of this year, investments in fixed assets have increased rapidly. During the first semester, investments in fixed assets throughout society as a whole had amounted to 219.97 billion yuan, a 29.2 percent increase over the corresponding period of the preceding year. In this figure the share of units owned by the whole people was 128.36 billion yuan, an increase of 33.9 percent. Is the increase in investments consistent with national capabilities? Is it apt to revive another investment inflation? These are questions of crucial concern in everybody's mind. On initial analysis, the present investment increases, although very rapid, still appear basically consistent with the overall economic growth and still within normal proportions. However, the inflationary factor which is inherently present here must be given most serious consideration.

#### Investment Increases Still Within Normal Proportions

1. The present rapid increase of investments has occurred as a consequence of repression of needed investments during the last few years. According to the principle of expanded reproduction and the operational patterns of the Chinese economy, investment increases should be somewhat larger than economic growth. Although investment increases during the first semester of this year have been very rapid, they have still been lower than economic growth. Comparing 1991 and 1988, the GNP (here and hereafter computed at the prices of the respective years) increased at an average annual rate of 12.3 percent, while

investments in fixed assets throughout society as a whole increased by only 7 percent. Comparing investments of units owned by the whole people during the first semester of this year with the corresponding period of 1988, their increases had also only been 12 percent, still less than the economic growth during these past years.

2. Investment increases are basically consistent with the economic growth of the whole. At the same time as investments rapidly increased during the first semester of this year, there had been a distinct acceleration of operations in the overall economy. The gross value of industrial output during the first semester of this year (here and hereafter computed at the prices of the respective years) increased 21.8 percent. In this figure, heavy industry increased 26 percent, and large increases were registered for products closely related to investments. The GNP during the first semester increased 11.6 percent, and any disparity between supply and demand remained within normal proportions. According to initial estimates, the GNP for the whole year may increase by around 9 to 10 percent.

3. Supplies of goods and materials can satisfy demand. Because the large decline in demand from investments during the past few years, supply-demand conflicts in principal product lines involved in investments could be mitigated and resolved, newly added resources became more substantial than could be used up, stocks increased, and all demands for goods and materials needed in investments could be fully satisfied.

#### The Inherent Investment Inflation Factor

Although the present rapid increase in investments is still within normal proportions, investments are not conducted in a well-regulated manner, because the macroeconomic regulatory and control mechanism for investments is still in a state of transformation. There is therefore here an element of renewed inflation inherently present in the rapid investment increases, and this manifests itself principally in the following:

1. Great eagerness to start projects. As soon as the "doubly tight" policy was relaxed last year, the number of new capital construction projects and transformation and renovation projects of over 50,000 yuan exceeded by 6,404 the number of projects completed and put into operation. Since the start of this year, the number of newly undertaken projects has continued to rise and during the first semester they had increased 32.4 percent over those during the corresponding period of the preceding year. It is estimated that during the second semester the number of new projects will continue to greatly increase as a consequence of a reduction in administrative measures, the ceding of more powers to the enterprises, and the improving economic efficiency of enterprises. New projects will therefore all the more exceed projects already completed and put into operation. This will unfavorably affect maintenance of the overall scope of projects under construction, the scope of the annual rate of investments, the scope of newly started projects, and the benign construction cycle.



2. The supply of funds may possibly fall short of demand. Although the total amount of allocated funds may presently still be larger than actually completed investments, for the past several months the increases in funds have now lagged behind amounts of actual investments. If this situation is allowed to continue, it will unavoidably lead to a shortfall of investment funds.

3. Objectives of macroeconomic regulation and control are vague. In order to strengthen macroeconomic control of the scope of fixed asset investments, the state should every year publish norms covering the control of the overall scope of investments. The state should then transmit these norms as basis for macroeconomic regulation and control along all vertical and horizontal lines of command. This year an amount of 540 billion yuan should first be readied, and this should later be adjusted to 570 billion yuan. After recently announcing as our aim an acceleration of reforms and an acceleration of economic developments, no specific objectives and measures have been formulated for the regulation and control of relevant activities. Under these circumstances, things may easily lead to an indiscriminate expansion of the scope of investments and to increasing the difficulties for macroeconomic regulation and control. An Assessment of the Situation for the Entire Year

It is initially estimated that this year the total scale of investments throughout society as a whole might be expected to reach around 700 billion yuan, a 27 percent increase over the preceding year, and making this the year with the highest expansion of the total scale of investments since 1985. Could this bring about an investment inflation, and, as a consequence, lead to a new round of currency inflation? An analysis of the situation indicates that there is little chance of an investment inflation to occur this year. However, in the absence of effective management and control, the inflationary element, which presently exists inherently, can quite possibly lead in the following years to a new round of inflation.

1. The principal comprehensive evaluation index has already reached its uppermost warning line for high-speed economic growth. Calculated on the basis of a 9 percent increase in this year's GNP, and with a 700 billion yuan scale of investments, the ratio of fixed asset investments throughout the entire society would take up 30 percent of the GNP increase. The total amount of this year's investments would account for 35 percent of last year's GNP. Both these comprehensive evaluation indices are already on the uppermost warning line for a right-scale scope of investments. History shows us that if the scope of investments remains at the uppermost warning line for two or three consecutive years, it may lead to investment inflation.

2. Principal investment products will be in short supply. It is estimated that the stocks of investment products will continue to decline toward the end of this year, and that shortages will occur in the principal investment products.

3. Prices for capital goods will continue to rise. It is estimated that the investment price indices will exceed last year's, and will reach double digits. However, the rise in the investment price indices will have little effect on the

retail price index for commodities. It will be possible to control this index to around 6 percent.

4. Effects will be felt in the economic development during subsequent years. At present the macroeconomic comprehensive evaluation index of investments has already reached the uppermost warning line for a period of high-speed economic growth, there are also signs of weakness in the supply of funds, and the supply of goods and materials tends to become strained. The pressures from the side of economic developments will become very strong in coming years and will quite possibly lead to a new round of inflation.

#### Major Tasks of Macroeconomic Regulation and Control During the Next Half Year

It is evident from the above analysis that the 700 billion yuan scale is somewhat unduly large. To maintain a benign cycle in the national economy, figuring at a 9 percent rate of increase of the GNP, it would be more appropriate to have this year's fixed asset investment rate throughout the entire society at 29 percent, and this year's investment scale at around 34 percent of last year's GNP. At these figures, this year's investment scale should at best be around 650 billion yuan. In this figure investments by units owned by the whole people should be controlled to around 443 billion yuan. Among the investments by units owned by the whole people, capital construction investments should be controlled to 236 billion yuan, investments for renovations and transformations to around 135 billion yuan. Under the current system, the macroeconomic regulation and control of investments should primarily be carried out through economic means, the main target being fund appropriations. In the present fixed asset investments throughout the entire society, the funds which the state could directly or indirectly regulate and control are appropriated only within the state budget and by bank loans. This portion of funds makes up only around 40 percent in the investments of units owned by the whole people. The difficulties for macroeconomic regulation and control are therefore very great, and the task is an extremely difficult one.

1. Clear determination of objectives of regulation and control, clear delineation of quantitative limits. At present China operates a system of management with different levels of decision-making powers, and the state's regulatory and control actions have to be carried out by coordinated actions of local authorities or departments. In order to be able to accomplish the state's macroeconomic regulatory and control tasks, the local authorities and departments must be provided with clear and definite regulation and control objectives and specific quantitative limits. It is therefore necessary to pay close attention to the formulation of control norms, graded by local districts and by departments, and equally necessary to achieve a unified understanding and full clarity on the task in hand, and also to institute management and responsibilities at all the various levels, so as to accomplish in unison the task of macroeconomic regulation and control and to maintain a well-coordinated progress in the national economy.



2. Strict control of the scope of overall credits allowed. This year the extension of credits has greatly increased month by month. During the first semester, banks have granted new credits to the amount of 125.6 billion yuan, almost double the amount of the control quota set at the start of the year. If no further controls are applied, there will possibly be a huge excessive amount of credits granted this year. The credit amount of 283 billion yuan determined at the beginning of this year according to a 6 percent growth rate of the GNP was somewhat low, and should have been raised appropriately and in a planned way. With every additional single percent in the economic growth rate, the rule should have been to raise credits by an extra 18 billion yuan. For this year, an overall credit scope of around 350 billion yuan would have been very appropriate, any excessive expansion would have unfavorable consequences for the economy.

3. Tightening the control of the stock market. Due to the shortage of construction funds and the very low interest rates for bank deposits, activities on the stock market are presently quite brisk. As we understand, there are now many local authorities and enterprises that have taken it upon themselves to issue various kinds of securities for their economic developments, and these projects are frequently such that would be unable to obtain funds because they do not conform to the state's industrial policy or because they are not profitable. Furthermore, because of the fairly high dividends of these shares, enterprises are of course adding to their financial burdens, which in turn adversely affects the economic returns from these enterprises. It is therefore necessary to tighten control over the stock market. It must be prevented that the issue of shares outside of the state plan expands the scale of credits and adversely affects economic developments.

4. Expending further efforts on straightening out outstanding debts, and preventing renewed delays in repayments of debts. Defaulting on outstanding debts is one of the main obstacles that now adversely affect normal business operations and an analysis and proper assessment of the present situation. It is therefore necessary to implement the relevant regulations of the Central Committee and the State Council to the effect that in every case where funds would produce no results and in case of projects already in default, such undertakings must be firmly and resolutely terminated, so as to avoid renewed defaulting.

#### **Establishing Broader Concept of Enterprise Reform**

92CE0702A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 92 pp 37-43

[Article by Bank of China's Zhou Xiaochuan (0719 1420 1557) and Chinese Social Science Academy Finance Trade and Economics Research Institute's Yang Zhigang (2799 0037 0474); Editor, Song Mingzi (1345 2494 1311): "Establishing a Broad Concept of Enterprise Reform"]

[Text] I. Understanding Enterprise Autonomy From the Profit Retention System

The profit retention system was the initial measure in China's enterprise reform and its appearance has deep ideological roots. The traditional central planning economic theory gave greatest emphasis to the area of material production, and rather tended to overlook the external economic conditions required for material production. Led by this theory, the focus in administering the centrally planned economy was always placed on administering enterprise material production and less frequently on integrating it with operating mechanisms for the entire economy. Although reform of the economic system began with criticizing and stimulating the old system, reform thinking still stressed enterprise reform in the narrow sense, especially as regards dividing profits between enterprises and the government. This inevitably led to the appearance of the enterprise profit retention system. It was commonly felt at that time that enterprises were the starting point for reform and enterprises also were the temporary stopping point. In addition there was a limited understanding of enterprise autonomy—the belief that enterprise autonomy was only authority to allocate profits. So, attention naturally was concentrated on the distribution of profits. This gave rise to reform thinking that called for tinkering with the form of profit distribution under the framework of the traditional system. This thinking restricted enterprise reform within a narrow area, because it overlooked all of the links and created a situation where enterprise reform could not be intensified smoothly.

Some critics of China's reform of the economic system believe that China's reform of the economic system after it began with rural agricultural reform, began to shift to urban reform and thereafter ran into difficulty. The enterprise profit retention system especially can be considered a false step in reform of the industrial system leading to inevitable setbacks in enterprise reform (Footnote 1. See B. Naughton, "False Start and the Second Wave: Financial Reform of the Chinese Industrial System," *Comparative Socioeconomic Systems*, 1987, p 2). There is some truth to this criticism. Some predictions have already been confirmed. But looking at China's actual situation, the demand for sound ideology in the initial stage of reform has not been sufficiently realized. Actually when reform first began there gradually was renewed understanding of the field of economic theory giving impetus to shifts in the thinking of the whole society. First, we launched a discussion of the goals of socialist production. This was rather significant at the time. The goal of satisfying the material and cultural needs of the people to the greatest extent required curtailing the emphasis on the model of self-circulating heavy industry. What type of economic system did this require? Did this require use of market adjustments? The suggestion of these issues clashed with central planning economic production and curtailed China's traditional developmental strategy of self-circulating heavy industries and laid the theoretical foundation for reform. Secondly, the discussion of material incentives that followed also had extremely clear theoretical significance and practical results. Bringing up this issue created the conditions for enterprise managers to use material incentives to

arouse worker enthusiasm and caused industrial production, especially such industries as light industry and textiles, machinery, and electronics, to tend to grow rapidly in the initial stage of reform. Financial reform also began. In 1983 the Central Bank was established and from a unified bank broke up into specialized banks and initiated medium and short term equipment loans. The commercial system began to be reformed, permitting free markets and industrial enterprises to use sales to determine production and to have a certain amount of sales autonomy. Economic thinking on foreign trade changed from being closed in on itself to encouraging development of an export oriented economy combining industry with trade, technology with trade, and imports with exports. In the three years from 1978 through 1980, it caused export figures to double. These were all extremely significant reforms, although they were shallow and not enough to produce a significant effect on the industrial system. The limitations on reform thought at that time showed in one respect a limited understanding of enterprise autonomy of only distributing profits, and in another respect did not fully recognize the intimate relationship among price, financial, revenue, monetary, commercial, and foreign trade reforms and internal enterprise reforms. This made it inevitable that the profit retention system would become the lead actor on the stage of enterprise reform.

It is understandable that this should occur in the initial stage of reform. The demand of that time for sound theory and a scientific, modern mode of thinking was not realized. At that time the vast majority of people, including economists, still were in the study stage. But economists cannot shirk the responsibility for the fact that after several years of reform, economic thinking still is not sufficiently sound, the method of analysis still has not reached the mark, and we still often waver in adopting the guiding thought of reform. As a result, a series of problems occur in the economy, there is no letup in long-term controversies, and they are not resolved.

## II. Deficiencies in the Understanding of Macroeconomics and Microeconomics

Since reform of the economic system, Chinese economists have gradually begun to accept some modern economic theories, especially the theory regarding the market, introducing some modern economic concepts. However, by no means do they have an accurate understanding of the actual content of some concepts and some simply seek a new name to put on the old concepts of traditional thinking. This is the situation regarding the understanding of concepts of macroeconomics and microeconomics, and this leads to deficiencies in the understanding of macroeconomic reform and microeconomic reform.

Macroeconomics and microeconomics both refer to economics itself. The difference is simply in the aspect emphasized in observing the situation. Whatever studies the problem from an overall perspective belongs to the macroeconomic category and emphasizing individual (including structural) study is microeconomics. But the understanding by a large number of people in China is if it comes under the jurisdiction of the central government it

is macroeconomics, and if it comes under the jurisdiction of enterprises it is microeconomics. There is macroeconomic reform so that the government can better administer the economy, but most of all to create good external conditions for operating enterprises. The comparison of "external factors" and "internal factors" certainly is less important. Moreover, the ultimate goal of reform is to reduce the concentrated administration of the central government. Thus, macroeconomic reform is only ancillary and is in a subsidiary position. Their viewpoint on microeconomics is that it refers to the economic activities of enterprises and the goal of microeconomic reform is to improve the operational efficiency of enterprises, but whether the enterprises' efficiency is good or bad has a direct bearing on the economic situation. Micro economic reform is much more important than macroeconomic reform, the core of the problem, and the "internal factor." This viewpoint still reflects the traditional thinking that all along gives predominant importance to the area of material production. Thus, reform of the commercial, foreign trade, monetary, and information areas is also subsidiary.

It is just this type of reform thinking apparently emphasizing industrial enterprises that restricts the smooth progress of enterprise reform. The reason is that this thinking forms a low dimensional, restricted concept of enterprise reform (with each coordinate counted less). Under this theory, enterprise reform includes only two important parts. One is the issue of enterprise profit distribution authority, that is the issue of how state and enterprise financial relations are divided up. This involves the issue of ownership systems. If they are clearly divided, enterprises then have a certain amount of autonomy. Another is improvement in the level of enterprise internal management. Actually this type of partial enterprise reform is very difficult to develop by itself. Take enterprise incentive measures, for example. Formerly it was thought that enterprises' having profit retention meant that enterprises had autonomy in using incentive mechanisms and they could use various ways to arouse worker enthusiasm. But actually, after several rounds from no ceiling or guaranteed minimum for bonuses to limited rations and lack of control on ceilings are repeated several times, it is very hard to be optimistic about how much autonomy enterprises actually have to use incentives.

Conducting enterprise reform in the narrow sense is a difficult path to follow, since it can create an extremely disheartening point of view believing that under the principles of the public ownership system, whether we reform or not is all the same. The state, the owner, and enterprise authority cannot be expanded. Therefore, there is no hope of enterprise reform and only implementing the private ownership system will work. This is creating a "dead end."

The logical inference is that reform of macroeconomic policy is to serve microeconomics and act as a basis for conducting microeconomics. If microeconomic reform does not go forward, "macroeconomic reform" loses its significance. Later criticism of the contract system and spreading of taxes and profits, as well as substitution of taxes for surrender of profits, all are related to the unclear

concepts described above. Because of mistaken concepts, although we now emphasize the government's macroeconomic control functions, the government's control actually, to a great extent, involves microeconomic issues such as specific prices, trading of specific commodities, specific classifications of wages, and industrial policies. These are all actually microeconomic issues in the commodity economy. For example, prices are the core issue in microeconomics. This aspect of reform belongs to microeconomic reform and is not the so-called "external economic environment" of enterprise reform. Reform of the system for such concentrated variables as governing overall demand is reform of macroeconomic policy.

### III. Correct Understanding of Enterprise Efficiency

A major goal of reform is the improvement of economic efficiency. The understanding of the concept of economic efficiency in the traditional way of thinking meant economic efficiency of enterprises and it was thought that improvement in the economic efficiency of enterprises added up to improvement of the economic efficiency of the whole society. So, an important way to improve economic efficiency was to arouse the enthusiasm of enterprises. But actually it was by no means that simple. Economic efficiency includes two interrelated but extremely different aspects: Efficient distribution of resources and efficient operation of enterprises. The former indicates whether or not an economic system can properly distribute resources to all the productive sectors of society to satisfy the goals of society. Because efficient distribution of resources reflects overall economic efficiency, it is an extremely important concept. The latter indicates how enterprises under existing resource conditions by such means as administration, planning, and training arrive at a better output-cost efficiency. It should be pointed out that an obviously defective system can produce contradictions and conflicts between these two efficiencies. Efficient distribution of resources occupies a more important position among economic efficiency concepts, because if the resource distribution system is not equitable, it often can limit enterprise autonomy and reduce the competitive pressure on enterprises, resulting in limitations on improvements of enterprise operating efficiency. In addition, if there are gaps, errors, and delays in resource distribution, it also can lead to the enterprises' operating under capacity, affecting improvements in enterprise operating efficiency. Under the traditional centrally planned economic system, enterprises did not have autonomy in making choices on employment and wages, products put into production and prices, product output and sales, and even products and technology. If an enterprise did not even have the most basic autonomy in day to day routine business decisions, it is very hard to imagine that in other issues regarding administrative decisions they would have full and lasting autonomy and be able to avoid administrative interference. A good economic system requires perfect coordinating mechanisms to coordinate efficient resource distribution with efficient enterprise operation so that both can be fully utilized. In current international experience, a successful resource distribution system has a macroeconomic adjustment market system.

By a system of prices reflecting the relationship between supply and demand, it accomplishes the optimum allocation of scarce resources and gives enterprises the greatest amount of autonomy so that they can each use their abilities to the greatest extent possible in accordance with their different characteristics to increase the efficiency of enterprise operations. This type of resource allocation system also makes the cost to society of resource allocation very low because of the efficient information structure.

Traditional political economists do not have this concept of efficient resource allocation. Because they assume that the central planned economic system has the capability to make the most proportionate arrangement of the economy and is able to ensure planned proportioned coordinated development of the economy, on the macroeconomic level the economy is bound to be efficient and the only problems with efficiency that need to be resolved are at the microeconomic level. That is, improvement in enterprise efficiency is equivalent to improvement in the efficiency of the entire economy. This traditional way of thinking that equates enterprise efficiency with efficiency of the entire economy gives rise to a special emphasis on enterprise reform, thereby totally overlooking an important link in the improvement of economic efficiency—improvement in the efficiency of resource allocation. This also is a root cause of the thinking that gives insufficient emphasis to the total demands of reform.

### IV. Evaluating Enterprise Self-Restraints

One of the principal determinations concerning the present ills of Chinese enterprises is that Chinese enterprises lack self-restraining capabilities. Quite a few people believe that the causes of the difficulties that have arisen in the Chinese economy, especially several problems such as inflation that have arisen since 1985, can be traced to the enterprises' lack of self-restraint capabilities. We need only enhance enterprise self-restraint mechanisms and we can solve most of the problems in the present economy. This is an oversimplified analysis. From this analysis, we simply recognize that in the market economy, because private ownership occupies the primary position, enterprises all use their own money, but China's enterprises are publicly owned and everyone uses public money and operating mechanisms are different. So, an important aspect of enterprise reform is property rights reform, in order to enhance self-development and self-restraint. Actually, one important factor in forming enterprise restraint mechanisms comes from the restraint of the owners on the managers. Their relationship is one of entrustment and encouragement. A more important factor is restraining the general pressure of competition on enterprise management. In a certain sense, the latter is the more important factor, because whether the ownership system restrains enterprise management or not, if there is strong enough pressure from competition, the enterprise to survive and not be eliminated will naturally cautiously take care of its own financial problems. The typical example is some small Japanese enterprises. As regards their ownership system, they are a bit like collectively owned or worker-governed enterprises and they have an inherent tendency to give out



a lot of wages and bonuses and have little accumulation, but because of acute competition, their operations are essentially normal, not like the Yugoslavian worker-governed enterprises with quite a few harmful situations. When competition mechanisms are not sound, the attention on restraint mechanisms can be shifted more to ownership. This is China's present problem.

In the company system, the owners or their authorized agent organization (the board of directors) establish the business objectives, the incentive methods, and the financial and auditing plan for the company general manager constituting the restraints of the owner on the manager. From the perspective of the legal person, this is the entrusting-encouragement relationship within the company, a form of self-restraint. But from the company management perspective, the restraints that come from the owner are a type of "external restraints," and are not characterized by "self." China's present state-owned enterprises which have owners from a remote and indistinct position talk about enterprises, they essentially mean management units. As far as they are concerned, the restraints from the owner are not "self-restraints" but a type of "external restraint." Until China can change the specific way that the public ownership system operates, it is not right to criticize the enterprises acting as management units for lacking "self-restraint." It is just like criticizing the son instead of the father when the father spoils the son, and it is a similar error to criticize enterprises for "bearing gains but not bearing losses."

Reform of the economic system demands that enterprise ownership should be clarified as much as possible. Clarification of property rights could cause administration of property rights to actually be carried out and no longer be in the situation where no one is responsible or administrative departments assume the authority for themselves. Privatization is by no means the only way to reform enterprise property rights. Presently in market economies there are some large socialized enterprises that often are held by a rather large number of stockholders and between the board of directors which represents the vast majority of the stockholders and the general managers there is an entrusting-encouragement oversight relationship (owner agent relationship). Within enterprises the relationship between the upper echelon and subordinate professional departments also is one of entrusting-encouragement oversight. The upper echelon must do a good job of evaluating results and authorizing incentives. In this way, even if problems occur in the operation, there still are motivations for improvements. The inevitable turf battles between purchasing agents and sales people are by no means because they have property rights, but because of a clear entrusting-encouragement relationship. It is not at all as some describe it that responsibility and restraint mechanisms of all economic activities in the market economy come from private property rights. So, within China's enterprise reform we must emphasize progress in a way that property rights are put into practice and operated and we cannot simply consider property rights as the single crux of the problem, especially today when great changes have been made in the social production and income

distribution systems. One of the keys to establishing an entrusting-encouragement relationship appropriate to the commodity economy is ultimate clarification of property rights. Otherwise, no one will do the initial entrusting and no one truly has the authority to design and use methods of encouragement and we remain in the former confused national economy situation where "everyone owns, but no one owns." The stock company system and the stock market are comparatively ready made for clearly defining company property rights in the market economy and making trading and reorganization possible. They are forms of enterprise organization that China can make use of in reforming its economic system. Based on China's actual situation, at the present stage we can make greater use of public and mass stock holding organizations such as old-aged funds, insurance companies, and mutual help investment funds to take specific responsibility for and operate public ownership property rights. And, we can, to a certain extent, develop overlapping stock holding between companies and employee stock holdings to speed up the clarification of property rights.

At the same time, we should see that the change to clarifying property rights is long and difficult. In one respect, it is rather difficult to appraise enterprise property itself, because we can no longer use the past distorted price system to appraise it, but we must adopt market values as a measure of the appraisal. This requires relevant organizational and personal abilities as well as a certain amount of time. In another respect, if enterprises enter into market appraisals all at once, it can give rise to distorted values in the short term, due to inappropriate and product and price structures. Enterprises must be given a transition period so that they can adjust their structure and gradually under comparatively appropriate conditions enter the capital market to make property appraisals and transfers fair. In addition, reform of the property rights system has a very strong effect on income distribution and is an extremely sensitive social and political issue. To maintain fairness in society it must be done cautiously. Thus, this transition cannot be completed in a short period of time.

Strong competitive pressure is the enterprise's most important restraining mechanism. Moreover, compared to reform of the method of operating the ownership system, forming a competitive structure is relatively easy, requiring a relatively short time period. Developing extensive fair competition has many advantages for China becoming a great market. However, because we have adopted the economic procedure of administrative division of authority and bargaining, creating market separation and enterprises under administrative protection to a certain extent have been cut off from competition. Introducing and participating in foreign competition, in one respect, should shift to an open economy and let the pressure of international market competition begin. In formulating specific policies, however, there still is a considerable affect from the internally oriented economy and the strategy to develop import substitutes. The awareness of participating in international market competition still is not strong enough. In a series of actual policies, such as foreign trade and foreign investment, there still is a

separation between the coast and inland manifested in the fact that there remains a vagueness about the unified market concept and the awareness of participating in competition.

Equality is the basis of competition. An important aspect of commodity economy competition is price competition, that is to say that in producing the same commodity a cheap price is more competitive. In addition, there also is nonprice competition. That means that although the same product has the same price, if it is different in such respects as the product quality and after-sale service, it will lead to different product use results. The reason for concentrating on these two aspects is that the other aspects do not have gaps that can be easily exploited. If we want to think about earning money, we can only succeed with price and quality competition.

If different treatment policies are formulated for different enterprises, such as a monopoly position of government support, dual track prices for raw materials, different tax rates, excessive preference in reducing or eliminating tax revenue, different shares of profit submitted, and inconsistent bank loan conditions, it can cause enterprises to shift their attention from competition to seeking contracts for monopoly positions, preferential policies, and a rather large number of preferential conditions. This situation is rather evident in the present economy. The fundamental way to change this situation is to establish the conditions and the basis for equal competition. Only then can the competition mechanism be utilized and competition can produce great restraints on enterprises. When it is used simultaneously with restraints external to the enterprise, including the tax revenue system, industrial and commercial administrative systems, and the auditing system, as well as enterprise ownership, change can begin to be accomplished in enterprise activity.

#### V. Evaluating Enterprise Self-Accumulation

Presently there is a great cry demanding that enterprises have their own accumulation. This is tied in with the cost-profit distortion in the economy. Because of the presence of the cost-profit distortion, enterprise profit restraints seem to be rather large and the former resident reserves are limited. Allowing enterprise self-accumulation seems to be rather normal. Actually the present enterprise cost appraisals are inadequate. They must use profits to make up for a number of costs and enterprises do not have many funds for self-accumulation. Disposing of accumulations also requires relying on capital markets or indirect monies.

In market economy countries, enterprises indeed must retain some profits to develop production. In most industrialized market economies, company profits only make up about 5 percent of the GNP. After they pay company income taxes, the share of profits once again is nearly halved. The remaining half (or slightly more) is the company's retained profit to be used as "self-accumulation." It makes up no more than 1.5 percent of the GNP. It is obvious that this is not the most important part of the

economy's total accumulation mechanism. The enterprise's own forces are inadequate for the more numerous expansions, purchases and mergers and they must rely on capital markets and indirect monies. In addition, from the perspective of the commodity economy, enterprise development is not necessarily in the former production orientation, but can be in expanding the business to other products and services. Thus they meet the need for adjustment in the industrial structure. If enterprises all develop according to a similar rate of accumulation and the original production orientation, the structure of the economy and the product mix cannot shift to the new high level orientation. So, in a market economy the accumulations of not only the numerous newly created enterprises, but also the already existing enterprises must consider the new social demands and changes in international market competition. This demands that enterprise accumulations make more use of funds outside the enterprise, that is bringing in direct monies through capital markets or bringing in indirect monies through such financial mediators as banks if they are to meet the demands for structural change.

In the first stage of China's economic reform, thinking was rather simple. It was believed that enterprises already had become independent management units responsible for their own profits and losses and they should also be responsible for their own accumulations. Thus, the slogan "self-accumulation" was proposed. But in fact, there presently are a great many enterprises where the ratio of capital stocks to debts is extremely lacking, making enterprises overly dependent on loans for expansion and reproduction. The risk from this type of loan should be considered great. On the one hand, it makes it difficult for banks to be managed as enterprises. On the other hand, if there is a problem, the government can get involved. The government often has no choice but to protect these enterprises. The original capital that some enterprises have is rather small, but they conduct new investment with large amounts of loans and there is no assurance that the banks will recover them, creating a great many bad debts. But because of the government involvement, the bank still can make loans despite the greater risk, due to the fact that the government will ultimately absorb it. We should especially point out that this situation not only occurs in state-owned enterprises, it also occurs in a considerable number of rural enterprises and citizen-run enterprises. For example, within some citizen-run enterprises in various science and technology development zones, the boss runs out of the country and funds also are transferred out, leaving only a pile of hard to sell reserves. Even in this situation, the leaders of the development zone do not want to let the enterprises go bankrupt, and continue to carry out administrative interference, taking loans from banks so they can survive. This means that for a great many enterprises the problem remains being unable to take responsibility for their own profits and losses. We cannot even talk about proper accumulation mechanisms.

If Chinese enterprises want to conduct production and expanded reproduction, they cannot totally rely on their own funds, and there is no need to. Continued reliance on

financial support also is no longer realistic. If enterprises want to obtain the funds that they need through money markets and capital markets, it is only required that production and circulation enterprises have a reasonable capital stock-debt ratio for these enterprises, assuming a normal risk, to deal with financial organizations. In ten years of reform, because the direct treasury appropriations for enterprises have been greatly reduced and enterprises increasingly rely on loans as a source of funds, because the system of eating from the big pot has not been completely changed, enterprises (especially some commercial and foreign trade enterprises) continuously borrow to complete their tasking in the plan. Some have even gotten into debt that they cannot repay. The ratio of some enterprises' own funds to borrowed funds is quite unsuitable. Especially in the last two years, with overstocking of products, permitting enterprises to borrow to pay wages and conduct production or expand commercial reserves has created an excessive inflation of bank loans and extended triangular debt. Some enterprises have even gotten to the point that their capital will not offset their debt. In this situation, some enterprises can think that borrowing a little more does not matter. A great many enterprises, especially state-run enterprises, even mainstay state enterprises, because they have changed from the former eating from the big treasury pot to the present eating from the bank big pot have caused reform of the economic system to fall into a situation where relationships are more complicated and have increased the difficulty of reform. To resolve this problem, on the one hand, we should emphasize the principle that banks be managed as enterprises, and on the other hand, we should adopt various methods for the recapitalization of enterprises, and then establish an appropriate capital stock-debt ratio. Thus, financial reform and enterprise reform should be carried out simultaneously and in a parallel fashion.

#### VI. Establish a Multi-Dimensional Concept of Enterprise Autonomy

After having undergone a series of such exploratory reforms as profit retention, substituting taxes for surrendered profits, and the contract system, after all how much has China's present enterprise autonomy expanded? Actual indications are that autonomy still is very limited. With market development incomplete and prices still distorted, enterprises still are government subsidiaries and for several decisions that enterprises should be making themselves, such as production, sales, development of new products, updating technology, reemployment of talent, and internal distribution, they still must request government interference. The narrow low dimensional concept of enterprise autonomy hopes to rely on the ratio and the authority for profit allocation, overlooking several autonomies not directly linked to profits and also overlooking distortions in the current enterprise financial system. As a result, instead they hinder the smooth conduct of enterprise reform. We must establish a multi-dimensional concept of enterprise autonomy.

Enterprise autonomy should include enterprise autonomy in purchasing raw materials (including imports), autonomy in deciding production orientation and new

product research and development, autonomy in using productive factors (the labor force and capital), and autonomy in product sales (determining prices, sales channels, and exports), as well as autonomy regarding capital market circulating funds. Regarding the form of ownership, a number of people have suggested that a current urgently needed improvement is clarification of enterprise property rights to seek some better specific forms of public ownership and not to hastily deny public ownership. With this multi-dimensional concept of enterprise autonomy, enterprise reform also becomes a multi-dimensional concept and if enterprises want to think about obtaining these autonomies, they must conduct the complete set of price, financial, monetary, and trade reforms, and must also coordinate these with reforms in the property rights system, as well as the housing and social insurance systems. Comparatively speaking, the enterprise's ratio and authority for distribution of the profits it earns will become a rather secondary dimension of enterprise reform. With a clear concept of macroeconomics and microeconomics, recognizing the correct place of enterprise efficiency and after determining the enterprise's restraint mechanisms and conditions, it can expand the dimensions of enterprise autonomy and lay the foundation for establishing a broad concept of enterprise reform and move enterprise reform to the major arena of total and complete reform. Only when enterprise reform progresses to the complete series of price, financial, tax revenue, monetary, trade, property rights systems, and social insurance reforms can it bring the enterprise true autonomy, accomplish the separation of the government from enterprises, and make enterprises vital. Only then can we be thoroughly extricated from the present one on one bargaining administration and move the economic system out of its tinkering predicament.

### PROVINCIAL

#### Heilongjiang Lays Out Economic Goals for 1995

92CE0685A Harbin HEILONGJIANG JINGJI BAO  
in Chinese 1 Aug 92 p 1

[Article: "Province Selects Near-Term Economic Goals and Main Direction of Attack"]

#### [Text] Main Goals

*The main goals are a fairly high degree of opening to the outside world, a closely linked internal and external economy, coordinated development of basic industries and processing industries, a fairly well formed mechanism for scientific and technical progress, ever improving competitiveness, and a marked rise in economic returns by 1995 that enables rise to a new level of the whole quality of the province's national economy. By the end of the present century, the province must begin to build a fairly competitive, highly efficient, and open national economic system, and a socialist market economy operating mechanism.*

*The main individual economic norms are: An average GNP increase of 8 percent or more per year, the 1995 GNP amounting to 90 billion yuan (at 1990 prices), and per capita GNP reaching a new level of \$2,400.*



A change in the ratio among primary, secondary, and tertiary industries from the present 23:54:23 to 18:52:30 in 1995, and 13:45:40 in 2000.

Scientific and technical progress making a more than 35 percent contribution to economic growth in 1995 and approximately 50 percent in 2000.

A more than 6 percent annual increase in the province's actual per capita level of consumption, reaching 1,300 yuan in 1995 and 1,700 yuan in 2000, the people attaining a comfortably well-off standard of living.

### Main Direction of Attack

**(a) Continued Good Performance of Existing Enterprises, Particularly Large- and Medium- Sized Enterprises, New Achievements Scored in Making Losing Enterprises Profitable.**

Genuine transformation of enterprise operating mechanisms, moving state-owned enterprises into markets, using market competition to accelerate their technological transformation, introducing diversified forms of administration and management, and deciding to take super normal actions to transform enterprise operating mechanisms.

1. *Accelerated Reform of the Enterprise Labor Wage and Income Distribution System.* Continued breaking of the shackles of lifetime jobs and equal distribution of wage funds in enterprises under ownership of the whole people, spreading over a wide area the system of contracting the use of labor, enterprises themselves deciding the form of distribution of earnings on the basis of their own production technology and the nature of their operation.

2. *Active Promotion of Share System Operation in Large- and Medium- Sized Enterprises.* Fifty large- and medium-sized enterprises are to be selected as pilot projects for the share system in the near future. In the operation of the share system, not only are juridical persons to hold shares and the issuance of internal shares in enterprises expanded, but a gradual change must be made to the issuance of shares to society at large. Henceforth, a share system is to be instituted throughout the province from the beginning of project construction for new projects built through joint investment.

3. *Complete Removal of Restrictions on Enterprises Production and Operation.* No government agency may interfere with enterprises production and operations plans and methods, or operations that cross industry lines that are within stipulated registered limits. Enterprises may use funds that they have raised themselves for expansion, and they themselves may plan their technological transformation without filing a report with the government agencies concerned to request examination and approval.

4. *Following a Course of More Intensive Operation, Accelerating the Building of Business Partnerships and Conglomerates.* Ten national level business conglomerates, and 50 provincial level business conglomerates are to be founded throughout the province in the near future.

5. *Acceleration of the Transformation of Old Enterprises To Tap Potential, and Increase in the Technology Content of Premium Products.* Foreign partners are to be found for 100 selected enterprises, various means used for grafting technology to bring about their transformation. By linking trade, industry, and agriculture, a concerted effort is to be made to produce 20 premium product lines in "cigarettes, sugar, hemp, dairy products, and paper," as well as electrical and mechanical appliances, motor vehicles, petrochemicals, and building materials. Local business enterprises or conglomerates that possess premium products or enjoy a relatively high market share are to be provided support and guidance to create 50 that produce an annual output value of more than 100 million yuan and taxes and profits of more than 10 million yuan.

6. *Thorough surveys are to be used as the basis for the open auctioning of a number of small state-owned enterprises having operating difficulties.* A number of small state-owned industrial, commercial, transportation, and service enterprises having total assets of less than 5 million yuan that have been losing money for a long time or experiencing operating difficulties are to be selected for public auctioning.

**(b) Further Increase in County Economic Strength, Breaking New Ground in the Development of Township and Town Enterprises.**

1. *Full use is to be made of the guiding role of the market under state macroeconomic regulation and control to meet the needs of the commodity economy, spelling out township and town development methods.* It is necessary both to turn to our advantage the strengths that local resources provide, and also to overcome excessive reliance on resources alone by finding ways to get around deficiencies in resources, orient toward domestic and foreign markets, and advance into new production fields using the "three bigs" in partnership, the diffusion of skills and products, and economic and technical cooperation. The "figuring of taxes and profits together," and the promotion of jindang (6651 3991), attainment of norms, and contracting of operations should be linked to guide the development of township and town enterprises in a healthy direction.

2. *It is necessary to arouse the interest of all quarters to increase investment in township and town enterprises to increase investment in fixed assets and working capital by approximately 13 billion yuan over the next three years.* Bank credit channels must be consolidated and expanded; and banks of all kinds at all levels must revamp their credit structure, and increase the scale of their loans to township and town enterprises. During the next three years, Bank of Agriculture loans should provide one-half the investment in township and town enterprise fixed assets, and 70 percent of their working capital.

3. *County capabilities to take charge of the economic development of counties must be further increased, and prefecture cities must delegate to counties a commensurate amount of examination and approval authority for various kinds of economic activities.* Counties must be permitted to set up pilot projects for comprehensive reform, themselves



undertaking structural readjustments and deciding cadre control authority. In cities and towns having requisite conditions, 100 township and town enterprise development zones and 50 specialized wholesale markets should be operated, a "three-pronged development strategy" (development along coastal regions, rivers, and frontier regions) adapted to permit some areas to become rich first.

**(3) Widen the Scale and the Purview of the Opening to the Outside World, Breaking New Ground in the Development of an Externally Oriented Economy.**

During the next three years of the Eighth Five-Year Plan, total imports and exports should average an approximately 20 percent annual increase to reach \$4 billion by 1995 in a doubling of the present amount, and rising to approximately 25 percent of GNP, including exports of more than \$2.5 billion. During the next three years, \$1 billion of foreign capital should be put to use. By the end of the present century, exports and imports should total \$10 billion.

**(4) The State, Collectives, Individuals, and Foreign Capital Rising Together, Breaking New Ground To Accelerate the Development of Tertiary Industries.**

1. Drafting of preferential policies to encourage development of tertiary industries, guiding and rousing the enthusiasm of all quarters of society to increase investment in tertiary industries.

2. Gradual perfection of classification systems, and highlighting key points in a focused way.

3. Change the situation in which entrepreneurial units and government agencies run society for a gradual socialization of all kinds of services.

**(5) Greater Building of Basic Facilities, Breaking New Ground in the Development of Dominant Industries Such as the Petrochemical Industry.**

- In electric power facilities construction, of greatest importance is the Mudanjiang Power Plant three stage project and the Harbin Three Power Plants two stage project.

In railroad construction, of greatest importance is the Harbin railroad hub two stage project, and the Jiamusi railroad hub project.

In highway construction, the rebuilding of 1,240 kilometers of high should be given attention.

In the building of civil air transportation, of greatest importance is expansion of the Harbin Airport, expansion of the Mudanjiang Airport, the relocation of the Heihe Airport, and the building of a new airport at Qitaihe.

In the building of communications, of greatest importance is the addition of 800,000 urban lines and 11,600 microwave lines.

In the building of water conservancy, of greatest importance is the Balengshan Reservoir, the Taoshan Reservoir two-stage project, the Geshan Reservoir, the Songhuajiang mainstream dike, and the Nenjiang mainstream dike.

While devoting attention to the development of other industries, financial and materials resources must be concentrated on accelerating the building of the foundation for the petrochemical industry, which is a dominant industry.

During the Eighth Five-Year Plan, we must cooperate with Russia in the use of Russia's petroleum and iron ore resources, cooperating with them in their development, pumping 2 million tons of petroleum for Heilongjiang Province's petrochemical industry and for refining. In the exploitation of iron ore, an iron and steel base having a 1 million ton capacity is to be constructed at Jixi.

## FINANCE, BANKING

### Financial Problems, Reform in 1990's

92CE0707A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 92 pp 66-71, 43

(Article written in January 1992 by Dai Genyou (2071 2704 2589), affiliated with the People's Bank of China's Survey and Statistics Department, edited by Wang Limin (3769 0448 3046): "China's Financial Problems and Financial Reforms in the 1990's")

[Text] Finance is a general term for capital flow, which grows out of capital transactions between institutions with either surpluses or shortages of capital that produce financial assets and liabilities. In China, where capital transactions are conducted mainly through the medium of banks, bank assets and liabilities roughly reflect public capital transactions or China's financial situation. As China's financial conditions in the 1990's grew out of those in the 1980's, China's financial problems of the 1990's should be able to be predicted from the changes that have occurred in our bank assets and liabilities since the 1980's.

### I. The Major Changes That Have Occurred in China's Bank Assets-Liability Makeup Since the 1980's

Our analysis of China's financial problems is aimed at contributing to macroeconomic financial control. Analyzing the changes in bank assets-liability makeup from a macroeconomic financial control perspective necessitates classifying the major players in economic operations. As macroeconomic financial control has to be carried out indirectly through the tool of economic policy, a macrofinancial analysis of the breakdown of the major players in economic operations should naturally be based on the nature of their economic actions. On this basis, the major economic players are generally broken down into the four categories of enterprises, households, governments, and foreigners. Based on these criteria, the following is a structural proportions chart of China's bank assets-liability balance sheet since these major adjustments have occurred:

Structural Proportions Chart of China's Bank Assets and Liabilities (%)

Item	1978	1991	Item	1978	1991
State Revenue Deposits	18.4	6.7	All Loans	98.2	87.2
Enterprise Deposits	39.7	37.2	Funds Tied Up in Gold, Silver, and Foreign Exchange	1.8	5.9
Household Deposits	8.2	33.9	State Revenue Borrowing	0	7.0
Market Money Supply	11.3	15.3			
Including Market Money Supply in Individual Hands	9.3	12.4			
Including Group-Held Market Money Supply	2.0	2.9			
Bank Capital	22.4	7.0			
Totals	100.0	100.0	Totals	100.0	100.0

This chart shows the following major changes that have occurred in China's bank assets-liability makeup in the last dozen or so years: 1) The percentages of state revenue deposits and banks' own capital are both down sharply. 2) The percentage of household capital sources is up sharply. The ratio of household savings deposits and bond certificates plus cash on hand to all bank capital rose 28.8 points from 17.5 percent in 1978 to 46.3 percent by 1991. 3) The percentage of enterprise capital sources has not changed much. The combined percentage of enterprise deposits plus group-held cash (mostly enterprise-held) dropped only 1.6 points from 41.7 percent in 1978 to 40.1 percent by 1991. 4) In all bank assets, the percentages are up for funds tied up in gold, silver, and foreign exchange, as well as for state revenue borrowing, but down for all loans. The percentage for all loans is down because of "squeezing out" by higher percentages for both funds tied up in gold, silver, and foreign exchange, as well as for state revenue borrowing. All of China's bank loans increased rather quickly during these years. From 1979 to 1991, while our loans increased a cumulative 880 percent, or at an average rate of 19.2 percent a year, our GNP at nominal and real value grew only a cumulative 450 percent and 190 percent, respectively, for average annual rates of 14.0 percent and 8.6 percent, respectively, leaving us with a severe problem of extraeconomic loan increases.

## II. The Major Financial Problems That China is Facing in the 1990's

As to assets, this chart also shows that in addition to the rather rapid increase in all loans, the additional two items of funds tied up in gold, silver, and foreign exchange, and state revenue borrowing, also increased. While funds tied up in gold, silver, and foreign exchange have guaranteed real value, state revenue borrowing, like all borrowing, is a liability, so is actually a kind of loan from banks to state revenue. Adding this state revenue borrowing to the loan figures for 1979 to 1991 means that our bank loans increased a cumulative 960 percent, or at an average rate

of 19.9 percent a year, for a cumulative 5.1 times our nominal GNP, or an average of 5.9 points more a year, and a cumulative 7.7 times our real GNP, or an average of 11.3 points more a year. These loan increases far exceeding our real (and even nominal) GNP growth means that our loans are increasingly lacking in material guarantees, and shows that we have a severe problem of bad debts or hidden loan-losses. While typical surveys of certain banks show that roughly 13 percent of their loans are bad, this figure is obviously artificially minimized. An overall accounting that compares loans to actual scale of economic operations shows that real hidden loan-losses far exceed this figure. These severe hidden loan-losses show that our bank assets are declining in quality and increasing in risk, which is one of the financial problems that we will not be able to dodge in the 1990's.

As to the liability items in this chart, except for banks' own capital, all of the rest are banking-system debts to the public. From 1979 to 1991, China's bank liabilities increased a cumulative 1,220 percent, or at an average rate of 22.2 percent a year, including household deposits that grew a cumulative 4,450 percent, or at an average rate of 34.1 percent a year. We know that among all bank liabilities, deposits by state revenue, enterprises, and households are not completely of the same nature. State revenue deposits are formed of the balance between revenue and expenditure, so can be controlled by fiscal policy. Since enterprise funding sources in China rely mainly on bank loans which, as banks' creditor's rights are premised on banks having creditor's rights to enterprises, banks can control them through recalling their creditor's rights or tightening credit whenever they feel it is necessary, so that enterprise deposits can be completely controlled by monetary policy. Household deposits in China differ in that banks do not generally make loans to households, which are considered to be consumers, so that individuals have creditor's rights to banks, but banks basically have none to individuals. This means that banks cannot control individual bank deposits through recalling their creditor's

rights whenever they feel it is necessary, as they can with enterprises. In other words, banks cannot regulate individual deposits by tightening or easing credit. This means that monetary policy has much less control over individual savings deposits than over enterprise deposits. As monetary policy can only generally have an indirect impact on household deposits through adjusting interest rates, such control is obviously much more difficult and comes at a greater cost. This peculiarity of household deposits and their high percentage of capital sources is bound to lead to the conclusion that even small variations in individual savings actions can touch off great changes in banks' capital sources. When such changes occur in China's system, where enterprise capital supply is basically guaranteed by banks that have very little flexibility over it, and where special banks are state banks that are not subject to runs because their commitments are basically guaranteed by the central bank, changes in state banks' capital sources that are set off by variations in individual savings actions are bound to directly result in more credit imbalance and runaway currency issue. Currency issue in China is actually quite random. For instance, in 1988 individual savings actions varied somewhat, lowering the national urban and rural savings deposits growth rate of that of 1987 from 37.3 percent to 23.7 percent. Even though the savings deposits growth rate at that time still far exceeded our national income growth rate (11 percent), the smaller increase in savings deposits still resulted in increased currency issue. Thus, savings deposits increased about 42 billion yuan less in 1988 than they had in 1987, resulting in an additional 44.3 billion yuan in currency issued, meaning that the larger amount of currency put into circulation in 1988 grew out of the smaller increase in savings. Another example is that in 1991 our national urban and rural savings deposits growth rate was 7.2 points, down from 1990, while the growth rate of currency issues increased 7.1 points, showing once more that the larger amount of currency put into circulation grew out of the smaller increase in savings deposits. The culmination of this experience roughly points out that in the years when savings deposits were stable, currency issue was also relatively stable; however, in the years when savings deposits fluctuated, currency issue was more difficult to control. This reciprocal relationship between currency put into circulation and savings deposits shows how the increase in the 1980's in the percentage of household deposits in bank capital sources sharply increased the liquidity (realization) risks of bank liabilities in a dozen or so years. This change in the nature of bank liabilities is the second major financial problem that we are facing in the 1990's.

Having separately analyzed the two major financial problems resulting from the changes that have occurred in China's bank assets-liability makeup, we can sum up by reaching an important conclusion from a macroeconomic control perspective that controlling inflation is much more difficult now than it was a dozen years ago. The increases in hidden bank-asset losses and liability-liquidity risks shows on one hand that loans and currency are much more "bearish," and on the other that controlling currency issue is more difficult. Moreover, they show a trend of currency

and credit circulation being divorced from material circulation. The existence of this trend is bound to be detrimental to inflation control. The inflationary pressures and central-bank monetary-policy control difficulties that China's economy is facing in the 1990's are much greater than in the past, which is the third major and most concentrated financial problem that China is facing in the 1990's.

### III. The Economic Roots of the Changes That Have Occurred in China's Bank Assets-Liability Makeup

Financial operations reflect national economic operations. The changes in China's bank assets-liability makeup are rooted in the changed order of income and capital flow in our national economic operations.

We know that financial assets and liabilities are two aspects of the same financial-transaction operation, with one side of financial transactions being expressed as assets, and the other as liabilities, in which assets and liabilities are generated simultaneously and in equal amounts. When we broke down the major economic players into the four categories of enterprises, households, governments, and foreigners, we abstracted and ignored the financial transactions within and among the sectors of enterprises, households, and governments, as well as international financial operations, studying only their financial-transaction operations with the domestic banking sector, in which case the part of these sectors' accounts that shows up as financial assets will certainly show up on banking sector accounts as financial liabilities, while the part of their accounts that shows up as financial liabilities will certainly show up on banking sector accounts as financial assets. If the accounts of banks and these other sectors have no statistical errors, the sum of all sectors' financial assets will certainly equal the sum of the banking sector's financial liabilities, and similarly the sum of all sectors' financial liabilities will certainly equal the sum of the banking sector's financial assets. From this assets-liability correlation between the banking sector and the other real sectors, we have derived a basic way of analyzing the causes of the changes in China's bank assets-liability makeup, i.e., that the economic roots of the changes in China's bank assets-liability makeup can be explained by the factors that affect the assets-liability makeup of enterprises, households, and governments.

The changes that occur in the assets-liability makeup of enterprises, households, and governments are a result of their income and spending activity. Presuming a closed economy, while the sum of all sectors' income and spending will balance out equally, the respective income and spending of each sector will certainly not balance out equally by sector. When a sector's income is greater than its spending, it will have a surplus, and when it is less, it will have a deficit. Sectors with surpluses sell financial assets to transfer out surpluses, while those with deficits issue financial liabilities to acquire capital sources to make up their deficits. As financial operations in China are expressed mainly as bank credit activity, most of the financial assets and liabilities generated in the course of



income and spending operations by enterprises, households, and governments are reflected in reverse form on bank assets-liability balance sheets.

Having clarified the link between the formation of the assets-liability makeup of enterprises, households, and governments and their respective income and spending activities, we have come to understand the deep economic roots of the changes that have occurred in China's bank assets-liability makeup in the last dozen or so years, which can be summed up as resulting from the changes that have occurred in our national income distribution order.

China's national income distribution order has undergone great changes in the last approximately dozen years of reform, which were characterized mainly by rapid increases in individual incomes and equally rapid decreases in state revenue. While enterprise retained profits increased very quickly, they flowed in various means into the hands of individuals, leaving enterprises with very little more of their own capital. Surplus individual income after consumption became savings, which in China means mainly bank savings deposits. The sharp increase in the last dozen or so years in national urban and rural savings deposits and their percentage of banks' capital sources was the result of the large increases in individual incomes. This is because a law of consumption is that the marginal propensity to consume individual income is one of progressive decrease, the reverse of which is a progressively increasing marginal propensity to save. Without the rapid increases in individual incomes, it would have been hard for savings deposits to grow so quickly or for the percentage of household deposits in banks' capital sources to rise. As to state revenue deposits, while the percentage of income into state revenue dropped in the last dozen or so years, spending from it certainly did not shrink correspondingly, which resulted in increased deficits. In order to make up these deficits, the state issued national treasury bonds to the public on one hand, while borrowing and overdrawing from banks on the other. This was the setting in which the abovementioned decrease in the percentage of state revenue deposits and increase in the percentage of state revenue borrowing evolved in China's bank assets-liability balance sheet.

Taking a closer look at the factors behind the changes that have occurred in China's national income distribution order, in addition to the change in economic growth by ownership composition, an even more important factor is the change in our enterprise system. Problems in our current enterprise system, such as the rights and interests of state capital not being fully guaranteed, wages eroding profits and depreciation funds, and enterprise assets being unreal, are basic factors in individual employee income growing too much and state revenue and enterprise incomes growing too little. These are the deeper factors in the changes that have occurred in China's bank assets-liability makeup.

#### IV. Financial Reform in the 1990's

We can see from the key problems in China's financial development in the 1990's and our analysis of their roots

as reflected in our bank assets-liability makeup, that the primary requirement for doing a good job of macroeconomic financial control in the 1990's will be to intensify our economic and particularly our enterprise reform. We must strive through enterprise reform to equip enterprises with self-accumulation mechanisms that will ensure the rights and interests of state capital and enterprise capital. We need to work hard at enterprise and revenue reform to ensure that state revenue acquires stable income sources. In addition, we should do all that we can through enterprise and revenue reform to bring some change to the state of national income distribution being too slanted toward the individual. Only in this way can we bring a corresponding degree of improvement to the financial problems reflected in the changes in our bank assets-liability makeup.

But it needs to be pointed out that no matter how much progress we make in enterprise and revenue reform, our national income distribution order will in no case return to its pre-reform proportions. In our understanding of the problem of the changes that have occurred in our bank assets-liability makeup, we must maintain a "balanced view." That is, while paying attention to the detrimental impact of this assets-liability makeup on our monetary policy control, we should also take note of its favorable aspect. This favorable aspect is that while our national income distribution is slanted toward the individual, which separates the major players in national savings from those in national investment, banks have organizational control over a larger share of national savings, which gives them an unprecedentedly stronger position in regulating national economic operations. One can imagine that if our national income distribution order was not slanted toward the individual, banks would not have such large capital sources or as great an impact as they do at present, and state macroeconomic control could not wield the tool of monetary policy as handily as it does now. It is thus obvious that our policy should consider both the favorable and unfavorable impact of the change in our bank assets-liability makeup on monetary policy control, and that our policy on control of bank liability makeup must take both aspects into account, by making some but not too much adjustment. The objective demands of economic development show that our macroeconomic financial control in the 1990's is faced with the task of redesigning our whole system of public financing. This will involve a whole series of matters, such as planning the proportions of indirect and direct financing, planning money markets, improving financial institutions, setting financial capital makeup, and planning macroeconomic financial regulation and control mechanisms. These matters are described below in the following four categories:

1. Our overall financial reform outline for the 1990's should be to adapt to China's changed capital flow order, by adopting a variety of credit forms to organize it more rationally. This should help to fully mobilize public savings, while rationally converting savings into investment. Financial reform must be carried out in a three-in-one way for financial instruments, financial institutions, and financial (money) markets. Moreover, we must adjust our

macroeconomic regulation and control goals and means based on our changed microeconomic forces.

The great changes in our public capital flow order brought about by our changed national income distribution order have made bank credit growth far exceed our economic growth since reform. This fact, on one hand shows that banks have an enormous impact on national economic development, while on the other, creating the abovementioned problem of accumulated inflationary pressures. In addition to the enterprise factors involved in the formation of this problem that we pointed out above, it is also being created by certain defects in China's current financial instruments, institutions, and markets. Our financial reform task is to gradually make it possible to eliminate these defects, so that our financial operations can promote economic development without or at a minimal cost of accumulated inflationary pressures.

The efficiency of financial operations should show up in whether surplus capital (savings) are fully mobilized and used to meet the capital demands (for investment) of major economic players with capital shortages. As to society as a whole, savings not being fully mobilized is reflected in goods and materials lying idle. As to China's real conditions, idle fixed assets and inventories is a very serious matter. Whether a society's goods and materials circulate (or lie idle) is to a certain extent a yardstick of its financial organization. When evaluating China's current financial organization by this yardstick, our financial reform tasks are obviously to link idle capital to our economic operating efficiency, and then to go on to improve the ties between our economic operating efficiency to our inflationary pressures. And the relationship between financial reform and solving the abovementioned medium- and long-term economic problems is also obvious.

As our financial instruments, institutions, and markets are improved, the stereotyped objective regulation and control mechanisms of the banks must also change correspondingly. A basic premise here is that conversion of financial macroeconomic regulation and control mechanisms must be based on changes in microeconomic financial operating forces, because the regulators and controllers and those being regulated and controlled are two aspects of one thing. And overemphasizing improvement of regulation and control mechanisms in isolation from the actual conditions of the regulation and control targets is mere idle talk that is divorced from reality.

2. As to financial instruments and forms and their respective reserves, China's current major problems are a shortage of long-term credit instruments and forms and too few long-term credit capital sources. Our financial reform tasks in this area are to provide suitable means of financing based on the objective demands of economic operations, and to rationally adjust long- and short-term capital proportions.

The changes in our national income distribution order have greatly expanded the extent of credit in China's economy, and sharply increased the role of credit in the

disposition of our economic resources. Moreover, the disposition of resources in economic operations is in the final analysis the right control of economic proportions based on the objective demands of economic operations. The proportions of fixed and liquid assets are particularly important here. If fixed and liquid assets are differentiated by value-compensation time, they can be divided into long- and short-term capital. Thus, as the extent of credit in China's economy is now greatly expanded, the financial sector must have corresponding capital sources to harmonize the proportions of fixed and liquid assets in overall public capital. China's current real situation is one of a severe shortage of long-term capital sources, and too large a percentage of short-term capital in the banks' capital sources. This imbalances of the long- and short-term capital proportions, forcing them to grant long-term loans with short-term capital, while causing the abovementioned problem of sharply higher bank liquidity risk. From a macroeconomic perspective, this increases inflationary pressures. This problem cannot be solved by proceeding negatively to cut back on fixed assets loans, which would create the problem of inadequate fixed assets investment sources coexisting with overstocked inventories. The right way is to adapt to the objective demands of economic operations, by creating long-term credit instruments that are acceptable to the public, in order to increase the long-term capital percentages of capital sources. Only in this way can we better ensure the right proportions of fixed and liquid assets in our economy, thus promoting steady economic growth, and reduce liquidity risks while meeting the capital demands for accelerated economic growth, thus reducing inflationary pressures;

3. As to financial institutions, our major current problem is too many multipurpose commercial banks and too few specialized banks. This means that banks should be controlled by specialization, with a current priority task being to establish long-term credit banks.

As our financial reform in guiding ideology of some years ago overemphasized business overlapping, competition among banks, and enterprises being allowed to open multiple accounts, China's specialized banks are largely multipurpose in nature. Some of our over 700 financial trust and investment corporations that developed years ago are actually veritable "financial department stores," i.e., multipurpose commercial banks. Ones, such as the Communication Bank of China, the Guangdong Development Bank, and the Central Trust Industrial Bank, all developed according to the model of multipurpose commercial banks. While recent years of improvement and rectification have somewhat restrained business overlapping and competition among specialized banks and enterprise establishment of multiple accounts, the matter of the lack of separation between long- and short-term business has still not been dealt with. Despite the reorganization of our financial trust and investment corporations, we still have over 300 of them, whose business development is now in a state of itching to stage a comeback, while several new multipurpose banks are suddenly appearing.

While it is a fact that commercial banks developing into multipurpose ones is the current trend in Western banking

development, whether China should take the multipurpose bank development route at this stage is a matter that needs to be analyzed in detail according to China's real economic situation.

The basic features of China's economy are, 1) a low level of development of the productive forces with a capital shortage, and 2) a planned commodity economy based on public ownership, in which the basic type of economic operation is a combination of planned economy with market regulation. These two basic features mean that China's financial capital flow order must reflect the commodity economy demand of a free flow of capital, while enabling the state to maintain a centralized control capability over the short resource of capital, so that from a macroeconomic operations perspective it can plan and balance the national economic structure, achieve its strategic intentions for economic development, and enhance its macroeconomic operating efficiency.

Based on the objective needs of China's current economic climate for a financial capital flow order, China should not now pursue all-out development of multipurpose banks. In particular, as China's multipurpose banks are now set up by administrative division, it is very hard for the central government to implement its strategic intentions for economic development through such multipurpose banks. While we have emphasized the pooling of capital for key construction projects for many years, our key construction capital has remained inadequate. Even the extreme form that we adopted in 1989 and 1990 to grant "spot credit" was subject to much interception in many places. Investments becoming more decentralized and smaller has always been a problem. Practice has proved that our current financial institution system is flawed.

As to our financial institution system, we particularly recommend that long- and short-term financial enterprises, in addition to considering long-term fundraising, also put limitations on short-term credit. The key to controlling overall public demand is controlling the money supply. In a modern credit system, money on deposit is the major part of the money supply, which is created by commercial banks through short-term financial operations. In order to enhance control of their money supply, central banks in all countries throughout the world without exception exercise particularly strong control over money on deposit in banks. Just imagine, if our financial institutions were not classified, and all of them could engage in both long- and short-term financing, how could our central bank control its money supply? For instance, when our financial order was most chaotic in 1988, hundreds of financial trust and investment corporations had demand deposits that made even financial statistical oversight very difficult. The activities of these financial trust and investment institutions were a key factor in our overheated economy in 1988. So it was natural that we made them a priority in our improvement and rectification of 1989. The future development of our existing financial trust and investment institutions is a problem that needs special study. If we chose a few of the ones that are more qualified in all aspects and turned them into specialized long-term

credit banks (such as the Power Development Bank), this would contribute both to state macroeconomic regulation and national economic development.

4. As to money markets, our basic current idea is to stick mostly to the premise of indirect financing, while revitalizing both indirect and direct money markets.

Money markets are the arena for capital transactions. The development patterns of money markets are undoubtedly objectively limited by the capital flow order. Based on the above analysis, our money markets should undoubtedly be mostly indirect financing, with indirect money markets referring mainly to financial (money) intermediary markets. As China's banks are our major financial intermediary, indirect money markets refer mainly to lending markets for banks in the same lines, discount markets for commercial bank notes, and rediscount markets for the central bank. China's current problems are capital being in short supply and very easily decentralized. While our increased fixed assets investment in 1991 was to meet our economic growth needs, it also caused a resurgence of the problem of investments becoming more decentralized and smaller. In order to contribute to the pooling of our limited public financial resources so that they can be used in the most needed places, the state must be able to control their direction of flow, which means that our capital financing order must not be too free. A key factor in Japan's world-class economic achievements in the mid-1970's was the strong government support given to rising industries. One of the premises for the government's ability to have such a strong impact on the economy was that Japan's financial order at the time was mostly indirect financing. Many of the world's countries that achieved rapid economic development were certainly not successful only because they opened direct money markets. While we certainly do not reject direct financing, and fully affirm its role, we should not worship it blindly. We should develop direct financing only premised on maintaining the dominance of indirect financing.

### Shanghai's Hot Stock Markets

92CE05918 Beijing LIAOWANG [OUTLOOK]  
in Chinese No 22, 1 Jun 92 pp 8, 47

[Article by Wang Hongyang (3076 3163 3152): "The Shanghai Stock Market: Blossoming Again and Becoming World-Oriented"]

[Text] The insignificant 100-yuan "Yuyuan" stock climbed magnificently to over 8,800 yuan the other day on the Shanghai Stock Exchange. Experts assert that it will break through its "ceiling price" to top 10,000 yuan within a week.

A real "stock market mirage" is shimmering over all of Shanghai.

The stock market in Shanghai, China's biggest economic metropolis, involves one-tenth of the approximately 13 million people in Shanghai, almost 100 large- and medium-sized industrial, commercial, agricultural, scientific, financial, and educational enterprises, a huge economic structure of traditional or rising industries, such as



metallurgy, light textiles, industrial chemicals, automobiles, microelectronics, and tourism, and many cities in the Chang Jiang valley and both within and beyond the Great Wall, as well as tens of thousands of people from Hong Kong, Macao, and Taiwan, and foreigners from both East and West, all of whom have stood up to become holders of New China's A or B stocks.

What will this reflowering of the Shanghai stock market after more than four decades actually mean?

### I.

Economists are calling the new Shanghai securities business "the second spiral in the history of Shanghai's development." In the 1930's and 1940's, the hundreds of Chinese and foreign banks that were gathered along the Bund were called "the Wall Street of the Orient." The first securities trading there began in the eighth year of the Guangxu Emperor in the late Qing Dynasty (1882). By 1905, the foreign-owned "Shanghai Business Exchange" was considered to be Shanghai's earliest stock exchange.

Some of old Shanghai's securities history includes tales of evil doings, such as speculation, profiteering, and swindling by foreign compradors, local gangsters, and bureaucrat capitalists.

But China's reformed and opened up socialist economy has finally opened wide its heart and broadened its horizons to "take up" stockholding, this current practice of contemporary economies, as a tool for China's modernization.

In December 1984, the Jing'an Securities Department of the Shanghai branch of the Industrial and Commercial Bank of China made New China's first public offering of stocks in the Shanghai Feile Acoustics Company. In the spring of 1986, some of this new stock was presented as a gift by Ms. Chen Muhua [7115 1970 5478], then president of the People's Bank of China, to the visiting chairman of the New York Stock Exchange.

The four large securities companies of Shenyin, Wanguo, Haitong, and Caizheng were then established, and over 60 stock trading counters were set up throughout Shanghai.

On 26 November 1990, the Shanghai Stock Exchange was born along with the development and opening up of Pudong. On December 19th, the gong sounded for the opening of New China's first stock market trading.

Now, 42 securities companies from provinces such as Zhejiang, Jiangsu, Anhui, Jiangxi, Fujian, Hubei, and Hainan, and cities, such as Shanghai, Beijing, Tianjin, and Shenzhen, have joined up to take part in Shanghai's stock market business. There are 15 stocks listed on the market, where the trading volume from January to May 1992 topped 5 billion yuan, or three times that for all of 1991.

Shanghai people now hold listed stocks and bonds with a market value of 14.5 billion yuan, or more than 33 percent of Shanghai's savings. This percentage is expected to continue to climb steadily.

For more than four decades, Shanghai has taken pride in its large commodity markets, and its retail commodity turnover now tops 40 billion yuan. But today's aggressive stock trading and brisk stock market climate cannot help but wake people up to the fact that the economy of this business capital has gotten onto a path of development "from a commodity earth to a currency paradise."

### II.

In today's Shanghai, it can be said that no place has not heard "stock talk," and stocks are undoubtedly today's hottest-selling "Shanghai commodity."

In January 1992, a once-a-year sale of 2.07 million 30-yuan stock-purchase (lottery) tickets was a sell-out. Then when five new stocks were listed on the market on 27 March, hundreds of thousands of Shanghai people lined up all night waiting patiently for the gong to sound for the morning opening of the exchange. Authoritative sources verify that the Shanghai stock market's computerized trading system records 300,000 official stockholders by name, which figures do not include the hundreds of popular "group armies," "mixed forces," and "small armies" of relatives and friends who put together tens or hundreds of thousands of yuan and collectively sent "ambassadors extraordinary and plenipotentiary" to buy stocks for them.

But as far as economic laws are concerned, stock values are ultimately determined by enterprise profits.

The Shanghai stock market's biggest backer is the business world. Xue Wenhui [5641 2429 3189], chairman of the board of the Shanghai Vacuum Electronic Devices Shareholding Corp Ltd, says that the real reason why his company offered A and B stocks was to force itself onto a course of breaking into foreign and domestic markets, becoming solely responsible for its own profits and losses, and acquiring independent management decisionmaking power.

Shanghai System Reform Commission statistics show that Shanghai's over 30 shareholding-system pilot-project enterprises have a much stronger self-development capability than ordinary state-owned enterprises, as well as more than 10 percent higher profits.

While the Shanghai Stock Market chose mostly small- and medium-sized collectively owned enterprises when it was first set up, shareholding today has become a way for Shanghai to reform the operating forces of its large- and medium-sized state-owned enterprises.

All of the following had occurred by May 1992. Asia's biggest chlorine soda industrial chemicals enterprise, the Shanghai Chlorine Soda Plant, had announced that it was being reorganized into China's biggest industrial shareholding enterprise with 800 million yuan worth of stock capital. China's biggest retail stores, the Shanghai No 1 Department Store and the Shanghai Hualian Commercial Building, as well as Shanghai's biggest food commodity outlet, the No 1 Provisions Shop, had all announced that they were becoming limited-liability companies. Asia's tallest tower, the 460-m high "Pearl of the Orient" TV

tower in Pudong, Shanghai, had announced that it was offering 410 million yuan worth of Shanghai's first cultural stocks. China's biggest tire enterprise group, the Shanghai Tire and Rubber Company, had converted to a Sino-foreign joint-venture limited-liability company. Shanghai's biggest collectively owned enterprise, the Shanghai Refrigerator Factory, had reorganized into the "Shuanglu (Double Deer)" Appliance Stock Company. Two high-tech research limited-liability companies had also appeared for the first time. Shanghai had even tried out shareholding in 277 rural enterprises, of which three large township enterprises had made tens of millions of yuan worth of public stock offerings, which have increased in price by more than 1,000 percent since they were listed on the market.

This continuous stream of shareholding system reforms is bringing a great upsurge to Shanghai's economic reform in the 1990's, which will be led by a timely rainfall in 1992 of 500 million yuan worth of stocks onto the "long drought-stricken" Shanghai Stock Market. Financiers predict that the recent trend of steadily rising prices on the Shanghai Stock Market due to the wide gap between supply and demand will be increasingly curbed, while stock market risks will gradually increase. Perhaps a severe challenge is coming in which stocks will no longer remain constant hot-sellers, so that stockholders' hopes will finally become forever focused instead on shareholding enterprises that make money through producing hot-selling commodities. An iron stock market rule is that the risks are equal for both stockholders and enterprises.

### III

The Shanghai Stock Market is of unparalleled size. Its visible part consists of one exchange, four companies, over 60 trading sites, more than 300,000 stockholders, 50-60 stock companies, and stocks with a value of several hundred million yuan. But its invisible side contains a huge amount of stock market information flow, as well as the overt or covert business intentions, feelings, and strategies of its thousands upon thousands of stockholders.

It is thus obvious how hard it is going to be to regulate and control such a vast and extremely dynamic market. In recent years, the Shanghai Stock Market has gradually evolved a set of basic management rules, such as stock offering approval rules stipulating that enterprises applying to offer stock must have been profitmaking for more than two consecutive years, rules on the examination and approval of stock types and market listings, and rules on penalties for law violations.

The Shanghai Stock Exchange has taken on all of Shanghai's stock trading, which has basically curbed the once raging black market in stocks.

The basic approach that Shanghai has taken to regulate and control stock prices is one of deregulating stock market prices by stages, in groups, and in small quick steps, in order to minimize fluctuations and make the transition to regulation through market forces at the minimum cost.

On 21 May 1992, Shanghai finally announced that it was doing away with the 5 percent price rise or fall restriction,

and officially deregulating all stock prices. This dismantled the last outpost of years of stock market regulation and control through moderating administrative means, which finally put the Shanghai stock market into a state of complete market regulation. It presented dozens of Shanghai shareholding enterprises and hundreds of thousands of stockholders with an open stock market.

On its very first day, the unhampered Shanghai stock market achieved a stock trading volume of 360 million yuan, setting a one-day record. The force of this buying that brought prices into line with market laws in one leap, as well as the countless number of potential stock market investors, left those in securities circles with the deep impression that the deep abysses and great potential of the Shanghai stock market could not be scientifically regulated and controlled without a large volume of stock market listings, mature operators, strict management rules, and the cultivation of a wise investment mentality.

### IV

This caused stock market standardization to become the focus of Shanghai public opinion. Even though the Shanghai stock market had been in existence for some years, it was still suffering from disorders, such as a low-level stage of development, market weakness in stock offerings, unilateral trading market development, and too high stock prices.

After hearing the views of many financial experts, Zhou Yongkang [0719 3057 1660], a member of the Shanghai Advisory Commission, pointed out in April that a glaring problem of the Shanghai stock market was its lax oversight of insider trading. He said that illegal actions were showing up as preferential deals between market offering agents and their connections, commissioned counters providing preferential quote price input to their connections, certain securities agencies giving priority to deals with large stockholders in exchange for kickbacks, and lax control of key information by issuing companies, all of which were means of stock market manipulation. He called for faster drawing up of essential basic laws, such as a "Securities Exchange Law," along with a reorganized Securities Management Commission, which would be legally empowered to manage all stock market matters.

Guan Jinsheng [4619 6855 3932], general manager of the Shanghai Wanguo Securities Co., notes that the more the Shanghai stock market is opened up, the more it needs to be standardized. He points out the following four standardization criteria: a sound legal framework; the establishment of a strict and scientific accounting system; the setting up of a professional, independent, and authoritative securities control system; and separate management of the securities and banking professions.

But the Shanghai stock market is still quite a ways from meeting these international standardization criteria. Guan Jinsheng points out that while Shanghai has or is about to offer many more stocks in 1992, which have undergone a certain amount of examination and approval procedures, there is still a lack of strict legal standards, with the emphasis often being on enterprise quantity control at the

expense of quality control. He also recommends that Shanghai follow foreign practice by immediately beginning to establish a securities control commission, which would be a key step in the standardization and internationalization of the Shanghai stock market.

# V

Becoming world-oriented has always been the development dream of the reblossoming Shanghai Stock Market.

On 21 February 1992, China's first special RMB (B) stock, Shanghai Vacuum Electronics with 230 foreign stockholders in 24 countries and regions throughout the world, was listed for trading on the Shanghai Stock Exchange.

Wei Wenyuan [1414 2429 3220], the general director of the Shanghai Stock Exchange, reports that Shanghai's B stock trading conditions have been handed over to and reported throughout the world by the REUTERS NEWS AGENCY. This means that Shanghai stock trading has gotten onto an international stock market track for the first time, so that the Shanghai Stock Market is becoming international.

This is a great day in the history of Shanghai stock trading and even in that of the reform and opening up of Chinese finance. While the face value of B stocks is indicated in RMB, they are traded in U.S. cash, with their offering and trading targets being limited to those outside of China's borders and foreign legal and natural persons. The offering of B stocks opens up a modern operational method of attracting foreign investment through stock rights for China's reform and opening up, to succeed that of Sino-foreign joint ventures, Sino-foreign contractual joint ventures, and wholly foreign-owned enterprises.

The Shanghai People's Government has announced that another \$100 million worth of B stocks will be offered in 1992. Shanghai's highly prized totally "Chinese" enterprises, such as the Shanghai No. 1 Department Store, The Shanghai Hualian Commercial Building, the China No. 1 Pencil Factory, and the Shanghai Yongsheng Fountain Pen Plant, will be attracting "foreign stockholders" for the first time in over four decades.

The political and cultural shocks over this are likely to sharply overshadow any economic gains.

The Shanghai Stock Market will certainly become world-oriented, the proper significance of which is that it will not only import foreign owners, but will also export Chinese stockholders. The real new era for the Chinese securities business will come not with the reflowering of China's stock markets, but rather with its independent self-management in the world securities arena.

## Trading Type 'B' Shares on Shenzhen, Shanghai Exchanges

92CE0521A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese  
No 17, 4 May 92 pp 3-10

[Article by Hu Ye-pi (5170 685) 4310]: "B Shares—A New Star in the Opening of China's Stock Market to the Outside World"]

[Text] B shares are a product of the opening of China's stock market to the outside world. Though less than a year has passed since they first appeared, they have been quite well received by overseas investors. The issue and trading of B shares has been extremely impressive, supply outstripping demand.

Just what kind of stock are B shares? Why has China issued B shares? How can people in Hong Kong buy B shares? How great is the risk in buying B shares? What is the outlook for B shares? If the reader is interested in the answers to these questions, please read this article carefully.

## Ideas and Patterns for the Opening of China's Stock Market to the Outside World

One thing about which many businessmen doing business on the China mainland frequently complain is that the pace of China's economic reform is still not fast enough, and that the opening to the outside world is still not big enough. But a look at the development of China's stock market positively does not support this same conclusion.

## Purpose in Opening the Stock Market to the Outside World

China did not begin to set up a stock market until 1986, yet this market was opened to foreign traders with the issuance of B shares at the end of 1991. In the history of the development of stock markets in the world, what country opened to the outside world within just five years after its founding? The Taiwan and South Korean stock markets have been in existence for several decades, but they are still not entirely open to foreign capital.

Naturally China's haste in opening its stock market to the outside world was not for the purpose of showing off its high speed economic reforms, but stemmed mostly from the most fundamental economic factor: attraction of capital from abroad through various channels for use in China's domestic construction. Even though the main ways that China attracts capital today are direct investment by foreign businessmen and loans from foreign financial institutions, the founding of a stock market in which foreign capital can be invested provides foreign businessmen an investment method that is most simple, most convenient, most direct, and that can be withdrawn most easily. From China's standpoint, the participation of foreign capital in the stock market can help regularize, internationalize, and modernize China's stock market as quickly as possible.

In short, when the Chinese Government considered whether to permit foreign capital into China's stock market, ideological controversies (about the introduction of capitalism, or the ownership of foreign capital) played virtually no part in their thinking. The pragmatic leaders focused mostly on economic factors such as how to attract more foreign capital, and how to make the Chinese stock market more international and more regularized while still being able to control it.



### Shanghai an Early Starter, but Shenzhen Has the Best Game

Mindful of this thinking of the Chinese leaders, China's stock market experts recommended two ways to import foreign capital. The first was the Thailand way, i.e., the issuance of B shares; and the second was the Taiwan and South Korea way, i.e., the setting up of mutual funds in which foreign capital could be invested. The two were compared. Since technical difficulties in the issuance of B shares were somewhat less, in addition to which China has neither the personnel nor the experience for managing mutual funds, China decided to adopt the B share method for attracting overseas investors. Thus it was that in December 1991, the Shanghai Vacuum Electronics Corporation was first to issue 1 million B shares, thereby beginning to open the main entrance to the Chinese stock market to the outside world. Shortly thereafter in Shenzhen—also in December 1991—China's Southern Glass Corporation issued 16 million B shares of stock for sale abroad. The B shares of these two corporations were put on the market a week apart in February 1992.

Because of its importance as a city and the relatively steady pace of its reform, plus the strategic thinking of central government leaders, Shanghai has frequently been first to try out many development measures (such as the opening of the stock exchange, the issue and trading of B shares, and very likely the establishment of mutual funds in the future). In fact, however, Shenzhen has been much bolder and much more radical about moving ahead with concrete reforms. When the Shanghai Vacuum Electronics B shares were still in the selling rights stage, not only was Southern Glass selling B shares, but nine other corporations offered B shares one after another. This included many corporations with an outstanding reputation such as China Bicycle, and Shenzhen Kangjia Electronics. Right now 10 corporations are putting the finishing touches on the listing of B shares. They are waiting only for the word to begin market trading. Meanwhile in Shanghai, except for Vacuum Electronics, the government has approved only two or three corporations such as Consolidated Wool Spinning Corporation to issue B shares, and the time when they will be issued and traded is even farther away.

Since only Shanghai and Shenzhen have stock markets today, these are the only two places where foreign capitalists can invest. However, the opening of the stock markets to foreign capital suggests that the pattern will very likely be one in which "Shanghai was the early starter, but Shenzhen has the best game." For foreign investors, this is a relatively important consideration when making strategic decisions. Because of its important position, its stability, and the influence it enjoys at high levels of the government, Shanghai is frequently able to get the jump on Shenzhen in drawing up reform measures. However, because of the fairly short period of time since its opening to the outside world, its dynamic operating methods, and the exceptional advantages its geographic location confers, Shenzhen is frequently able to move ahead in carrying out concrete matters. It has very bright prospects.

### Thoughts About Gradually Opening Up the Stock Market

For the next five years at least, the opening up of the Chinese stock market will absolutely not be as freewheeling as the Hong Kong Stock Market. Foreign investment will mostly be

in the form of investment in B shares or mutual funds. Forecasts call for sizable growth over the next decade or so in the issuance of B shares, both in terms of numbers and monetary value, a fairly sizable market taking shape. This will make foreign investors to feel that investment in Chinese B shares is no longer risky, but a normal investment.

The general line of thinking about investment funds is that China's domestic finance and banking institutions will first establish an investment fund management corporation, and will set up funds mostly for purchases by domestic investors. This will have as its main goal the accumulation of experience in the management of funds by the domestic securities business. A second goal is to get professional institutional investors inside the country as a means of spurring the stable and strong development of the entire stock market. Intense preparations in this regard are also actually underway today. In Shanghai, work is being done by the Shanghai Municipal Investment Trust Corporation, and in Shenzhen numerous financial corporations are working together on it. Forecasts call for the birth of a fund management corporation in both places by the end of 1992 for sure. Naturally, the first such corporation will be in Shanghai, but soon thereafter, fund management corporations in both places will offer funds for purchase by domestic investors.

Sometime after the advent of these funds for the purchase of domestic investors, funds will be offered for purchase by foreign investors as the next step. This method of providing funds for foreign business investment will be the same as the overseas funds that have existed in Taiwan for a long time. The funds will be managed by domestic financial institutions but will be exclusively bought and sold by foreign investors.

### Chinese B Shares and Circumstances Surrounding Their Issuance

At the present time, there is actually only one channel through which foreign investors may invest in the Chinese stock market, and that is the purchase of B shares. Just what are B shares; how are they bought and traded, and how great are opportunities for making a profit?

### What Is the Meaning of B Shares?

Strictly speaking, only citizens of China may purchase and trade stocks on the Shenzhen and Shanghai stock markets. However, in order to attract foreign capital in the opening of the stock market to the outside world to a certain extent, China has selected a number of businesses for the issuance of two different kinds of stock that are sold inside and outside China at two different prices. The kind that are purchased mostly by Chinese citizens are A shares, the kind that are purchased mostly by foreign investors are B shares.

B shares (1) have a face value denominated in renminbi; (2) are traded in foreign currency, such as in Hong Kong dollars in the Shenzhen market and United States dollars in the Shanghai market; (3) are intended for sale to foreign residents and foreign investment corporations both inside and outside China; and (4) enjoy the same rights as A shares.

The first requirement for corporations issuing B shares is that they have the ability to earn foreign exchange so that they will be able to distribute dividends and pay interest in foreign exchange at the appointed time. Moreover, once the amount of B shares issued is greater than a corporation's total capital, the corporation will be regarded as a Sino-foreign joint venture entitled to enjoy all the preferential treatments (such as preferential income tax rates) accorded other Sino-foreign joint ventures.

#### Issuance of B Shares

When choosing corporations to issue B shares, mostly businesses having a good reputation and good prospects for making a profit are chosen. Even so, because of differences in numerous criteria such as accounting systems and the transparency of published information of these corporations, there is substantial variance from the what international practice requires from a corporation listing securities. For this reason, Chinese B shares may not be sold on fairly mature stock markets abroad. This means that the public may not openly register with a securities corporation for securities in the same way as for a newly issued Hong Kong stock. Chinese B shares are

issued mostly through sales by private individuals, and the main purchasers are institutional investors. Take the Shanghai Vacuum Electronics B shares,—the first to be issued—1 million shares of which were issued at 420 yuan renminbi per share. Of the 230 investors who bought them, 90 were institutional investors and 140 were individual investors, but purchases by institutional investors accounted for 91.43 percent of the total value.

Since it is mostly foreign investors inside and outside China who purchase B shares, B shares are issued through mostly two channels. One is a number of securities traders in China designated responsible for issuing B shares to foreign traders in China. The other is a number of specially authorized securities traders abroad appointed responsible for issuing B shares to overseas investors. Between the two, it is the overseas securities traders who are dominant. In the case of the Shanghai Vacuum Electronics B shares, for example, 80 percent were sold by three overseas securities traders, namely the Swiss Bank Corporation, the American Solomon Brothers (HK) Ltd., and the Hong Kong Sun Hung Kai International Services Corporation, only 20 percent being sold by three domestic securities corporations namely Shenyin, Haitong, and Wanguo in Shanghai.

#### Shenzhen B Share Authorized Agents

In China	Shenzhen Securities Corp.
	Securities Department, Shenzhen Branch of the Bank of China
	Securities Department, International Trust Corp., Shenzhen
	International Fund Securities Department, International Trust Corp., Shenzhen
	Securities Department, China Merchants Bank
Abroad	Hawer Securities (Asia) Ltd.
	Lyonnais Securities Corp.
	Zhuozong Corp.
	Sun Hung Kai Investment Services Ltd.
	Bulfinch Securities (HK) Ltd.
	Guocheng Securities Company
	Baifeng Securities Company
	Wardley Corp.
	Yifu Group Corp.
	Dongsheng Securities Company
	South China Securities Corp.
	Swiss Bank (Asia) Ltd.
	Sharoun Securities Company

#### Shanghai B Share Authorized Agents

Inside China	Shenyin Securities Company, Shanghai
	Haitong Securities Company, Shanghai
	Wanguo Securities Company, Shanghai
Abroad	Swiss Bank (Asia) Ltd.
	Solomon Brothers (HK) Ltd.
	Sun Hung Kai Investment Services Ltd.

Shenzhen and Shanghai B Shares Issuance Table

Corporation	Number of Shares Issued (Million Shares)	Amount Raised (Million Yuan Renminbi)	Issue Value (Yuan Renminbi)	Kind of Business	Major Overseas Contingents
<b>Shenzhen Exchange</b>					
China Southern Glass	16.0	63.7	3.98	Glass Manufacture	Harwei
China Bicycle	23.5	95.6	3.73	Bicycle Manufacture	Charter Asia
Kangjie Electronics	10.0	41.2	4.13	Color Television Manufacture	Charter Asia
Shenzhen Municipal Real Estate Development	30.0	108.0	3.6	Real Estate	Sun Hui Kai, Credit Lyonnais
Shenzhen Petrochemical	15.0	48.66	3.244	Petrochemical Products	Credit Lyonnais
Shenzhen Zhongchu	12.0	33.4	#2.78	Manufacture of Displays	Credit Lyonnais
Zhongshan Printing and Dyeing	20.0	30.0	#1.50	Printing and Dyeing	
Huafa Electronics	24.3	46.3	#1.90	Color Television Manufacture	Bailuqin Shenzhen
City Shenzhen Canned Goods	18.0	37.8	#2.10	Canned Goods Exhibits	Baling, Gaocheng
<b>Shanghai Exchange*</b>					
Shanghai Vacuum Electronics	0.10	42.0	420	Electronics Products Manufacture	Sun Hong Kai, Solomon Brothers, Swiss Bank Asia * means that the B and A share price is the same * means that although Shanghai's plans for issuing B shares have not been completely announced, it is expected that the corporations that have most recently issued A shares will also issue B shares Corporations listed in March 1992 as having issued A shares are as follows: Zhongsheng Enterprise Corporation, Special-Shape Steel Tube Company, Pudong Quansheng Taxi Company, Jinglong Corporation, Light Industry Machinery Corporation, Consolidated Textile Enterprise Company, and First Textile Machinery Company.

A trial period is always required when something first begins, and this trial period can easily develop into a monopoly period during which exclusive rights are exercised. In the issuance of the B shares, the securities traders inside China and abroad who have been empowered to issue B shares have such a special right. For a certain period of time, they will monopolize the issuance of B shares, and this monopoly will ensure that they will make a substantial profit. Since the B shares being issued today are for domestic enterprises that are in relatively good shape, since the issue price has been set fairly preferentially in order to attract foreign capital, and since large quantities have not been issued, foreign investors have an easy

going attitude about buying some on trial. Consequently, the B share issues have gone along fairly smoothly, each of them being oversubscribed, and this has brought profits averaging 200 percent for the authorized securities traders.

#### How Hong Kong Residents Buy and Sell B Shares

Even though more than 10 Chinese businesses have successfully completed the issuance of B shares inside China to date, only two have formally begun to buy and sell B shares in exchanges. One is the B shares of the Shanghai Vacuum Electronics Corporation, and the other is the B shares of Southern Glass in Shenzhen. During 1992, B shares traded in the markets will certainly increase greatly.



It is of crucial importance than an overseas investor who wants to purchase and deal in Chinese B shares understand the trading process and required procedures. Since there is no substantive difference between Shenzhen and Shanghai in the buying and selling of B shares, let me use a Hong Kong person's purchase of Shenzhen shares as an example to explain the B shares trading process and procedures.

#### **Establishing an Account**

A Hong Kong share buyer must first open an account for the buying and selling of Chinese B shares with an authorized overseas securities corporation (a list of which is attached). The security company relays this account data to the Chinese B shares authorized settlement bank in Shenzhen (list below). The bank will then open a B share registered account for the customer.

#### **Shenzhen Type B Shares Buying and Selling Process**

- 1: Shenzhen Central Registering Corporation
- 2: Registration Directive
- 3: Shenzhen Exchange
- 4: Transaction Confirmation
- 5: Authorized Settlement Bank
- 6: Real Time Exchange Situation
- 7: Deqin Finance and Economics Information
- 8: Transaction Confirmation
- 9: Shenzhen Authorized Securities Trader
- 10: Transaction Confirmation
- 11: Hong Kong Authorized Securities Trader
- 12: Transaction Confirmation
- 13: Hong Kong Seller
- 14: Sell Order
- 15: Transaction Confirmation
- 16: Authorized Settlement Bank
- 17: Real Time Exchange Situation
- 18: Deqin Finance and Economics Information
- 19: Transaction Confirmation
- 20: Shenzhen Authorized Securities Trader
- 21: Cash
- 22: Transaction Confirmation
- 23: Hong Kong Authorized Securities Trader
- 24: Transaction Confirmation
- 25: Hong Kong Buyer
- 26: Buy Order
- 27: Cash

**Note:** There is no substantive difference between Shanghai and Shenzhen in the buying and selling of B shares; thus, the buying and selling process shown above applies to Shanghai as well.

#### **Buying and Selling Procedures**

##### **\*Same Day as Trade\***

- 1) Customer issues a B share buy or sell order to the authorized Hong Kong securities company;
- 2) Hong Kong securities company relays order to authorized securities company in Shenzhen;
- 3) If a deal is made, the Shenzhen securities company notifies the Hong Kong securities company, which notifies the customer. The transaction is then recorded in the Shenzhen Stock Exchange;

- 4) The Shenzhen securities company issues transfer and settlement instructions to the authorized settlement bank, and the buyer must also transfer to the Hong Kong securities company the money required for the purchase of these shares.

##### **\*Day After Trade\***

- 1) Both the transfer order that the Shenzhen securities company issued and the transaction confirmation that the Shenzhen Stock Exchange issued must reach the authorized settlement bank before 12:00 noon;

- 2) After 4:00 p.m., the authorized settlement bank will issue a "temporary settlement document" to confirm the transaction.

##### **\*Two Days After Trade\***

Should there be any changes or amendments to the transaction, the Hong Kong and the Shenzhen authorized securities traders may notify the settlement bank before 4:00 p.m. The settlement bank will issue a "final settlement document" before 6:00 p.m.

##### **\*Three Days After Trade\***

At 9:30 a.m., the authorized settlement bank will begin to complete all settlement procedures. Afterward the data in the account that the customer maintains with the authorized securities trader in Hong Kong and in the B share account opened in the Shenzhen authorized settlement bank will be updated. The settlement bank will also relay all information to the Central Registering Corporation to assist registration at the registering corporation.

#### **Shenzhen Authorized Securities Traders**

##### **Locally Authorized**

Shenzhen Securities Corporation

Securities Department, Shenzhen Branch of the Bank of China

Securities Department, International Trust Corporation, Shenzhen

Securities Department, International Fund

Securities Department China Merchants Bank

##### **Authorized Abroad**

Huawei Securities

Lyonsais Securities

Charter Asia

Sun Hung Kai Investment Services

Guocheng Securities

Beifugui Finance

Wardley Ltd.

Fengtai Hang Finance

Yifu Group

South China Securities

Swiss Bank Corporation

Shazuan Securities

### Shenzhen Authorized Securities Traders (Continued)

Quangli Securities Note: Since the Shenzhen Stock Exchange has made a paper-free transfer, the share certificate change of hands and registration being done by computer, all that remains to be done is for the Shenzhen authorized settlement bank to change the information in the customer's registered B share account. All settlement banks are Shenzhen government approved, meaning they are responsible for settlement of B shares and for holding B shares.

### Shanghai Authorized Securities Traders

#### Locally Authorized Traders

Shanghai Shenyin Securities Company

Shanghai Wanguo Securities Company

Shanghai Haitong Securities Company

#### Authorized Traders Abroad

Solomon Brothers International Ltd.

Sun Hong Kai Investment Services Corporation

Swiss Bank Corporation

### Shenzhen Authorized Settlement Banks

Shenzhen Branch of the Hong Kong Hong Kong, Shanghai Banking Corp.

Shenzhen Branch of the Chartered Bank

Shenzhen Branch of Citibank

### Shanghai Authorized Settlement Banks

Shanghai Branch of Citibank

### Trade Fees

After the trade has been made, the investor must pay the following fees:

- A broker's commission: 0.6 percent of the price of the shares or a minimum of HK\$680.
- Stamp tax: 0.3 percent of the price of the shares.
- Exchange commission: 0.05 percent of the price of the shares.
- Registration fee: 0.3 percent of the face value of the shares.
- Clearing and settlement fee: .01 percent of the price of the shares, or a minimum of HK\$185 and a maximum of HK\$625.
- Shareholder account custody fee: .015 percent of market value (annualized rate).

In addition, should the investor apply for the transfer to the account of another broker of share certificates and foreign currency in the clearance bank that acts as an agent for the securities trader, the securities trader must agree, and he must pay the securities trader a safe custody and account transfer handling fee of HK\$500 before account transfer.

### Figuring the Renminbi to Foreign Currency Exchange Rate

Since B share transactions are figured in renminbi but payment is figured in either Hong Kong dollars or United States dollars, the exchange rate between renminbi and the foreign currency is of prime importance. At the present time, the renminbi is pegged to the U.S. dollar, and the central government has adopted a strategy that somewhat devalues the renminbi, which ultimately becomes an international hard currency; therefore, relatively speaking, the risk in exchanging it for foreign currency is not very great. When B shares are traded, the exchange rate is figured on the closing rate at the Shenzhen Foreign Exchange Regulation Center on the day prior to the trade.

### Exchange Times

The Shenzhen Exchange operates six days a week (public holidays excepted), Monday through Friday plus Saturday morning.

Morning exchange hours: 9:00 a.m.-11:00 a.m. Afternoon exchange hours: 2:00 p.m. to 3:30 p.m.

The Shanghai Exchange is open for trading only five days a week, Monday through Friday.

Morning exchange hours: 9:30 a.m. to 11:00 a.m. Afternoon exchange hours: 1:30 p.m. to 3:00 p.m.

### Dividend Payments

Dividend payments go through the Shenzhen authorized securities trader and the Hong Kong authorized securities trader, ultimately reaching the hands of the customer. The amount of a dividend is the amount that the listing corporation pays minus the amount of dividend tax that the Chinese Government collects.

### Taxes

When a foreign investor receives a dividend, or when he receives a profit from the sale of share certificates, a 20 percent tax is collected in accordance with applicable Chinese law. However, if this dividend or profit derives from a Chinese special economic zone or an economic and technical development zone, or from any of the 14 Chinese coastal cities opened to the outside world, the dividends tax and added value tax rate is reduced to 10 percent. Since both Shenzhen and Shanghai are among the above mentioned special cities, the tax rate is 10 percent.

### Investors' Apprehensions About B Shares

Since the appearance of the first B shares at the end of 1991—the B shares of the Shanghai Vacuum Electronics Corporation—more than 10 different B shares have been issued in Shanghai and Shenzhen to date. After trading in B shares began toward the end of February 1992, two more have been listed. Furthermore, the present situation shows fairly impressive accomplishments in the issue and trading of B shares. All of the more than 10 different B shares have been oversubscribed, the supply being unable to keep up with demand, thereby showing approval of China's B shares on the part of overseas investors. On the first day following the listing of the Shanghai Vacuum Electronic's B shares, the share price rose 20 percent, and performance of the B shares marketed in Shenzhen—the B shares of Southern Glass—was even more striking, rising more than 70 percent on the first day. Without doubt, the swift and

strong rise in these two B shares lay a fairly good foundation for the appearance of all Chinese B shares.

#### **Successful Sale of First Group of B Shares Somewhat Special**

Nevertheless, one thing that investors could not help but notice was that there were some special reasons for the successful issue and trading of the first batch of Chinese B shares as follows:

First of all, since the issue of these B shares was a first ever event in the history of China that was experimental in nature to a certain extent, and which also represented, in a certain sense, Chinese Government confidence in foreign investors, the corporations listing these B shares had all been rigorously selected. All those selected were basically of good quality with fine profit-making prospects. Their future prospects were much better than those of some corporations who have since listed shares in Shanghai and Shenzhen.

Second, since the issue of these shares was experimental in nature, since China did not accurately gauge the reaction of the international market in advance, and since the issue price could not be too different than the issue price for A shares (the issuing price of A shares was overly low for the sake of promotion; in both Shenzhen and Shanghai hundreds of thousands of people lined up all night to buy), the issue price of the B shares was also comparatively too low.

In addition, since it was mostly institutional investors abroad who purchased the B shares, and since the amount of the B shares issued was small relative to the amount of funds available for investment in the hands of the investors, the investors could very easily take a small amount of money from the amount available for investment to purchase B shares as a kind of trial investment. However, this trial was relatively important for the investment managers. This was because the Chinese stock market, though small, held tremendous potential. If the fund managers' trial succeeded, this would lay the groundwork for large scale investment later on. Even if a loss ensued, since the amount of money involved was small, this would not make a lot of difference.

Finally, since the first group of B shares issued and traded represented the confidence of the Chinese Government in overseas investors, the Chinese Government certainly hoped that these B shares would be successful. Furthermore, because of the substantial administrative interference in the stock market, overseas investors also figured that, if necessary, the Chinese Government would support these B shares; thus it was very unlikely that the issuance and trading of these B shares would fail. Consequently, investors' opportunities for making a profit were very great, so they dared to buy without worrying.

In short, the application of the foregoing four points to the first group of China's B shares made these B shares special to a certain extent, and it was also a special factor in their success. The final result was that the B shares found an unprecedentedly good reaction abroad. The subscription was enthusiastic, and they were traded vigorously, so much

so that the World Bank sent people on a special trip to Shenzhen to discuss the purchase of China Bicycle B shares, and became one of the stockholders.

#### **B Share Weaknesses and Problems**

As was said above, the first group of B shares were special to a certain extent. Even though world reaction to them was rather out of the ordinary, as professional investors, fund managers still realized fairly clearly and completely the weaknesses and problems with these B shares.

First, since China had no stock market previously, and since the number of share corporations was extremely small, the information that some listing corporations and stock issuing corporations disclosed was very inadequate. Furthermore, neither did the stock market laws of Shenzhen and Shanghai require them to disclose sufficient data. This made it rather difficult for overseas investors to evaluate these corporations. However, as professional institutional investors, they particularly valued a basic analysis of listing corporations. A lack of information could only make them doubly apprehensive.

Second, even though investors were able to obtain some data at certain times, since China used an accounting system and a statistical system that did not meet international standards, they had to discount the credibility and the usefulness of these data. This further complicated analysis of the listing corporations.

Third, since China still has no national laws and regulations pertaining to share trading such as corporate law, securities law, or accounting law, but only some laws of the local Shenzhen and Shanghai governments that also fail to guarantee the rights and interests of investors, this made overseas investors hesitant about making a move. Furthermore, overseas investors worried that China was not a country completely under the rule of law. The smell of the rule of men is still fairly strong. On this account, investors had mental reservations about long-term investment in the Chinese stock market.

Fourth, when mature investors buy and sell in a stock market, of greatest importance is an intelligent analysis of that stock market. China's stock market was in an inchoate stage, however. In a certain sense, it frequently exhibited a lack of intelligence, wild ups and downs frequently occurring. Moreover, China's investors were unable to understand completely the rules of the game of a stock market that is rigorously controlled and rational; consequently, rumors and even inside information frequently circulated in the stock market. For overseas institutional investors accustomed to fighting by the rules, this left no room for the economic theories or scientific analyses that they were accustomed to using; thus, it also became an impediment to their entry into the stock market.

Fifth, one very interesting phenomenon that overseas investors found about the first group of corporations that issued B shares, as well as some corporations that listed securities later, was that the corporations' business affairs were fairly complex. If these corporations were to be classified, many of them would be put into the "multiple



businesses" category. For example, because of the very prosperous real estate business in Shenzhen, very many corporations scrambled to get into it. One corporation making most chemical industry products also invested heavily in real estate development, and the main profits of a corporations engaged mostly in trade came from its real estate investments. In short, they swarmed to whatever investment could make money for them. Possibly the profits of listed corporations might be sizeable for a short period of time. However, in the long run, because of some listing corporations' penchant for investing in other businesses and since investment in real estate was not their strong suit, even though a large cake to be divided still existed at the time, once competition gradually intensified, the real estate development of these corporation was bound not to remain viable forever; consequently, their profit making capabilities also had to be discounted. This was also a source of worry for institutional investors about the long-term profitability of listed Chinese corporations.

Sixth, one problem that Hong Kong institutional investors frequently raise is why invest in Chinese B shares instead of using the same money to invest in the Hong Kong market, mostly in corporations doing business with China? In the Hong Kong Stock Market, a body of laws and a supervisory system exists, and an accounting system and information disclosure system exists that meet international standards. Moreover, the average market profit rate for Hong Kong corporations is only about 12 times, while the market profit rate for most Chinese B shares is mostly somewhat more than 15 times, so why invest in B shares? At least some moderate institutional investors feel that investment in "Chinese concept shares" in Hong Kong is safer, but that B shares are a high risk investment suitable only for investors who dare to take risks.

### **B Share Prospects**

Despite the numerous questions surrounding B shares, this is not to say that they will not continue to develop and improve. One must realize, first of all, that this market has just begun so naturally it has many shortcomings, particularly problems pertaining to legal protection. However, the Chinese Government's opening of the stock market to the outside world just six years after its inception fully demonstrates the government's desire that the stock market perform well. Therefore, government is also actively drafting pertinent legal documents, and it will formally publish them with all possible speed so that the entire stock market operates under a fully developed legal system.

### **B Share Market Will Become Gradually Regularized**

This process of development and perfection includes not only the legal framework for China's stock market, but also the quality of listed corporations themselves and the accounting system used. Since an increasingly large number of listed corporations are Sino-foreign joint ventures, relatively speaking, the accounting system they use will more closely follow the international standard. Inasmuch as they come under public scrutiny once they are

listed, the listed corporations themselves will also constantly improve their administration and management, thereby establishing a better and more solid image.

In addition, since the B shares and the A shares will fall into two different markets, the investors in each being different, and the relationship between supply and demand in both markets being very different, prices of B shares and A shares will also differ. In the long run, however, since most of the investors in B shares are professional investors having specialized knowledge and who are adept at rational analysis, the B shares market will regularize somewhat, and gradually the B shares market will spur a regularization of the A shares market.

### **More and More Foreign Investment in the Chinese Stock Market**

Issuance and trading of B shares will expand little by little each year, meaning an increasing influx of foreign capital into the Chinese stock market. In addition, the area of participation will also broaden more and more from the sale and trading of only B shares to other financial advisory services such as preparation and planning of listings, as well as to future services such as mergers, reorganizations, and purchases. This participation will doubtlessly make the B share market increasingly approximate western markets.

Undeniably, as the B shares gradually mature, the possibility is increasingly great that B shares will be listed in overseas securities markets, particularly the Hong Kong unified market. Such a trans-jurisdictional listing is advantageous for both China and Hong Kong. The listing of Chinese shares on foreign markets would naturally be an honor for China; and for Hong Kong, which lacks listings for certain kinds of corporations (such as high technology and heavy industry corporations), helping with the listing of mainland corporations would make up for the incompleteness of Hong Kong listed corporations.

Although B shares have made an appearance only in Shanghai and Shenzhen, China will be found to establish more stock markets. For a country as huge as China, when a series of stock markets are established throughout the country, the potential of the total Chinese stock market will be astounding. Therefore, when investing in B shares today, one must recognize the Chinese stock market's long-term development possibilities. Although the present investment bears an experimental cast, the experiences that investors accumulate from it as well as the relationships they develop in all quarters will be bound to find application when Chinese stock markets open up everywhere in the country later on.

### **Can China Turn Back?**

The problem about which overseas investors are ultimately most concerned is the Chinese political situation. They are worried lest a sudden fluctuation in the political situation might deliver a major blow to the stock market, or that it might even be closed, their entire investment going down the drain as a result. However, investors who can objectively analyze the Chinese political situation should realize

that China cannot turn back. Naturally, some fluctuations may occur in the Chinese political situation that may lead to vacillation in economic policies and ramify into the stock market. But one thing is certain, and that is that political fluctuations positively will not produce a turning back to rigid ultra-leftism. The Chinese people have had a belly full of that kind of sorrow, and during the past decade and more, they have increasingly tasted the sweetness of reform and opening to the outside world. Therefore, should the government consider turning back, I believe that it would positively be unable to gain popular support. In this sense, although some fluctuations in China's political situation are bound to occur, the main thrust will absolutely be forward. Economic reform and opening to the outside world can be vouchsafed. It is for just this reason that China's stock markets will also move ahead; positively no day will come when they will be closed, and long-range prospects for investment in B shares must naturally also be optimistic.

## FOREIGN TRADE, INVESTMENT

### Border Trade Escalating Nationwide

92CE0610B Beijing GUOJI SHANGBAO in Chinese  
28 Jul 92 p 1

[Article by Ren Xiaofei (0117 2556 7236): "Great Breakthrough in Trade Figures; Economic and Technological Cooperation Follow: Border Province and Region Border Trade and Local Trade Increase Greatly"]

[Text] Exclusive Dispatch With the constantly intensified reform of the foreign trade system, everyone's attention is caught by the gradual breakthrough in the low-level border trade of Heilongjiang, Jilin, Liaoning, Nei Mongol, Xinjiang, Xizang, Yunnan, and Guangxi and the trade relations and extremely active economic and technological cooperation with surrounding countries. Following the rapid takeoff of the economy of the eastern coastal region, these areas also are moving toward vibrant economic circumstances.

According to incomplete statistics, in the first five months of this year, barter exchanges of the five northern provinces and regions with the Commonwealth of Independent States, Korea, and Mongolia reached US\$900 million, more than half of China's total barter trade with these countries in all of last year. From January through May, Heilongjiang's border trade increased 100 percent over the same period last year, indicating its vigor. Generally speaking, in recent years bilateral border trade and local trade both have grown at a rather great rate each year and the share of border and local trade has risen, becoming important conduits for trade exchanges between China and neighboring countries. In addition, the mix of import and export commodities has changed, product varieties have increased, and overall trade has increased and trade balance of payments no longer simply adopts such forms as commodities and materials, but takes on a flexible comprehensive operational compensation aspect. With the intensified development of the orientation toward deeper levels of trade has come economic and technological

cooperation. Last year China signed agreements with the former Soviet Union for 409 labor contracts with a total value of US\$820 million. As of now, 2,300 economic and trade organizations and enterprises of various sorts have been opened in the former Soviet Union and some ten joint investment (or sole investment) enterprises have been opened in Mongolia and Korea with the approval of the Ministry of Foreign Economic Relations and Trade. In March of this year, the State Council decided to further open the four border cities of Heihe, Suifenhe, Huichun, and Manzhouli and confer on them the necessary preferential policies to expand border trade and local trade with Eluosi and other Commonwealth of Independent States countries. The State Council also decided that some northwestern border cities such as Yining, Tacheng, and Bole would also be further opened up. Judging from the trends, the establishment of long-term, stable border region economic and technological cooperation is inevitable.

In the southern border provinces and regions, despite the rather numerous neighbors, the situation is not the same, but the general situation is steadily improving. Various places adopt different forms, including spot trading, off-setting trade, and barter trade. Guangxi and Yunnan's flourishing border trade have caught the attention of everyone. In former times, such small desolate border cities as Pingxiang, Ruili, and Wanding were already very famous. In June the State Council approved support for accelerated development of the five cities (counties and towns) of Pingxiang, Dongxing, Wanding, Ruili, and Hekou. They will broaden the foreign economic management authority of these cities and implement some policy measures from the coastal economic open regions and provide the conditions for the establishment of border economic cooperation zones to encourage foreign businesses and domestic enterprises to invest and give preferential treatment to investors. The state also will give support by arranging credit funds. According to a report in ASIA WEEK, last year Yunnan's border trade with Burma, Laos, and Vietnam reached US\$128 million, five times that of 1985. Guangxi's total border trade in 1989 still only reached 400 million renminbi. By last year it jumped to 2 billion yuan. The import and export commodity mix of Chinese-Burmese and Chinese-Vietnamese border trade are rather advantageous to both sides with a strong complementarity, and trends look good. Comparatively speaking, China's border trade with Pakistan and Laos have not had great fluctuations and have developed steadily. Last year China signed a memorandum of understanding with India to restore the two countries' border trade. Now the two sides are making preparations to open ports to one another's trade. The southern border area also has had some breakthroughs in foreign economic cooperation. The Guangxi International Company signed four agreements with Vietnam amounting to more than US\$72 million for construction projects and to upgrade enterprise technology, and is now setting out to implement them. The Chinese have opened stores in Laos and have established joint venture restaurants in Vietnam, unparting an air of prosperity. It is reported that several joint venture and cooperation projects also are being negotiated.

The basis of the great development of border trade and local trade is the constantly intensified reform of the foreign trade system. With the breakthrough in the individual management model, the transfer of management autonomy for foreign trade, and the flexible promotion of multiple forms of trade, localities' opportunities to develop economic relations are greatly increased. At the same time, expanding bilateral trade relations beginning with border trade is very significant for China's diversified market strategy.

This reporter understands that because of the rapid development of border trade and local trade, we now must constantly improve and strengthen macroeconomic management. For example, some ports still have not established or restored customs and port joint inspection organizations and some trade relations lack bank oversight and some do not have strict implementation of the state's unified tax policy. In addition, enterprises conducting border and local barter trade need to improve their quality and their management capabilities and such infrastructures as port traffic, water and electricity supply, and communication must be further improved in order to adapt to rapid development.

#### Beijing Semiannual Foreign Trade Performance

92CE0610C Beijing GUOJI SHANGBAO in Chinese  
26 Jul 92 p 1

[Article by Deng Dunlian (6772 2413 6647) and Wang Yan (3769 8827): "Beijing Foreign Economic Relations and Trade in Six Months Has Completed More Than Half of Its Assignment: There Are Incoming and Outgoing Staff, High and Low Income, Lively and Moribund Enterprises, and Higher and Lower Cadres"]

[Text] Exclusive Dispatch Beijing Municipality's foreign economic relations and trade continue to develop well. It has completed 60.3 percent of the state plan for foreign trade exports and approved foreign investment in 724 enterprises, equal to the number approved for all of last year, and 97 percent of these are productive enterprises.

This year various economic and trade enterprises of the Beijing Municipality, beginning with improved labor makeup, through reform of the labor, personnel, and distribution systems, has gradually instituted mechanisms for "lively and moribund enterprises, high and low cadres, incoming and outgoing staff, and high and low income" to expand export transactions and lay a foundation for improved economic results. As of the end of June of this year, the Beijing Municipality had attained US\$750 million in exports, an increase of 11.5 percent over the same period last year. Of those, specialized foreign trade companies accomplished US\$490 million, 59 percent of the state plan, "accomplishing more than half of their assignment in six months." Dual track enterprises have completely turned around the sliding export situation and seven companies together have exported US\$120 million, 82.9 percent of the state plan. Self-managed export enterprises have exported US\$69.7 million, a 25.9 percent increase over the same period last year. In the first half of this year, Beijing Municipality export transactions reached

US\$857 million and purchases of goods and resources reached US\$(?)2.684 billion, a respective increase of 3.3 percent and 6 percent over the same period last year.

By the end of June, Beijing Municipality had approved foreign investment in a total of 724 enterprises, with agreements totaling more than US\$720 million, a 31 percent increase over the same period last year. Foreign investors directly invested more than US\$340 million, a 20 percent increase over the same period last year. Of the new batch of foreign investment enterprises, 571 are joint ventures, 24 are cooperative enterprises, and 129 are sole investment enterprises. Beijing Municipality presently has approved foreign investment in a total of 2,285 enterprises for an agreement amount of US\$6.051 billion, US\$2.824 billion of that direct foreign investment; and 87.7 percent of these enterprises are productive enterprises.

While the number of productive enterprises in three kinds of partially or wholly foreign-owned enterprises gradually increased, production and management of the vast majority of already opened enterprises is good. The annual total value of output for partially or wholly foreign-owned industrial enterprises in the Beijing Municipality local independently calculated gross value of industrial output rose from 2.8 percent in 1987 to 12 percent in 1991. Every year nearly 60 percent of Beijing Municipality's new increases in value of industrial output are supplied by partially or wholly foreign-owned enterprises. From January through May of this year, tax revenue turned over to the state by partially or wholly foreign-owned enterprises reached 655 million yuan, more than 60 percent of the tax revenues turned over to the state in all of last year.

#### Foreign Trade Educator Urges Revised Curriculum

92CE0610D Beijing GUOJI SHANGBAO in Chinese  
14 Jul 92 p 1

[Article by Wang Ping (3769 1456): "There Should Be a Feeling of Urgency for Intensified Reform of Economic and Trade Education"—Interview With Foreign Economic Relations and Trade University Vice President Wang Linsheng]

[Text] The Foreign Economic Relations and Trade University is China's only relatively complete multidisciplinary university specializing in foreign economic relations and trade and the cradle of training for economic and trade talent. Since Comrade Deng Xiaoping gave speeches on his southern tour at the beginning of this year, this institution of higher learning has equally had the surge of a spring tide. How reform of higher education in economy and trade can be intensified and how to motivate appropriate new reform and opening up have become the main thoughts of the school's leaders.

The other day this reporter visited the school's vice president, Professor Wang Ping. Obviously, he has given this issue a lot of thought. Vice President Wang spoke with fervor and assurance about reform at the Foreign Economy Relations and Trade University, believing that if we are to train modern economic and trade managers we must give serious thought to resolving some issues.



1. Update the structure of knowledge and train people who can adapt to the need for diversification, commercialization, and internationalization in economic relations and trade. The gradual diversification of the economy and trade since reform and opening up has not only involved trading commodities, but also transfer and circulation of funds, labor, and technology. But the former curriculum mainly centered on import and export and design of commodities and rather extensively stressed operational content and a unitary structure of knowledge. With intensified reform of the economic system and enterprises gradually becoming independent economic entities, there certainly will be a requirement for enterprise managers with decisionmaking, marketing, and money-managing capabilities. At the same time, with China now increasingly participating in international economic organizations and activities, economic and trade enterprises must engage in multinational management and it is difficult to succeed in international management based on the old structure of knowledge. To resolve these issues, in recent years the Foreign Economic Relations and Trade University has increasingly established specialties and adjusted the curriculum. But because their educational duties are heavy, updating of the instructors' knowledge structure still is not ideal. Vice President Wang believes that in the future we must put forth a great effort to create the conditions and help instructors to update their structure of knowledge as quickly as possible and establish a teaching force qualified both politically and professionally.

2. Better the establishment of specialties and course structure to improve student adaptability. Although a group of specialties have been added and the contradiction between the unitary structure of knowledge and the need for diverse talents has been eased, it has also brought new problems, the adaptability of graduates with restricted specialties and a small span of knowledge to changes in the work is limited. In the future we should strive for combining "the general and the special" and one specialty and many capabilities and avoid the establishment of overly minute and overly restricted specialties, and the structure of the curriculum should be reformed by further standardization and systemization. At the same time, we must speed up the establishment of improved management systems for schools, academies, and departments so that each department can become units of education and scientific research in fact as well as in name to promote cross-fertilization among specialties to aid the development of learning so that what students learn conforms to actual requirements to shorten the time that it takes graduates to adapt to the job.

Moreover, in addition to restructuring the old specialties, [we must] stress the need to foster such new specialties as management of international enterprises, international economic cooperation, and international accounting, and speed up the training of specialists in foreign economic activity, a specialty that is somewhat lacking.

3. Strengthen internationalized cooperation and train high level talent. In recent years, the Foreign Economic Relations and Trade University's foreign exchanges have increased a great deal. In the future it is conceivable that:

First, we can create the conditions to receive regular foreign (undergraduate and graduate) students early on; secondly, we can consider joint MBA programs with reputable foreign universities. This not only can help the school to become more international, but will also help to train higher level specialists. And, having a highly internationalized university with graduates that can more easily enter international society and can easily be employed by foreign and international organizations is extremely helpful to China in initiating foreign economic activities.

#### Update on Shanghai's Foreign Trade, Investment 92CE0610E Beijing GUOJI SHANGBAO in Chinese 21 Jul 92 p 1

[Article by Chen Xueyan (7115 1331 3601) and He Xiaoying (0149 1420 3467): "Shanghai Foreign Economic Relations and Trade Commission Promulgates New Measures To Intensify Reform and Opening Up—Establish Great Opening Up, Great Foreign Trade, and Great Overseas Concepts—Establish a Great Market, a Great Center, and a Great Commercial Port"]

[Text] Sha Lin, Chairman of the Shanghai Municipal Foreign Economic Relations and Trade Commission told journalists the other day that Shanghai will speed up the establishment of "great foreign trade, great overseas, and great opening up" consciousness. That is, Shanghai will establish a major foreign and domestic market, a major center, and a major port bringing together innumerable firms. In enhancing and developing overseas enterprises we will develop a "great overseas" spirit and enhance the "great opening up" concept centered on the development and opening up of Pudong in expectation of the formation of a new pattern of multi-level, multi-channel foreign trade for the city.

Chairman Sha Lin also announced some Foreign Economic Relations and Trade Commission measures for the last half of the year to intensify reform and broaden opening up. The main ones of these are:

—Fully utilizing Pudong's policies to increase the openness of the foreign trade business. In the first half of the year, they approved the establishment of three branches of foreign trade (industry and trade) enterprises and seven productive enterprises (groups) in Pudong. The business scope of these enterprises is diverse. In addition to exports, they also can conduct domestic trade and real estate and can actively engage in such multinational business as entrepot trading. Labor employment and allocation systems will be conducted in accordance with Sino-foreign joint venture methods to further open up Pudong's foreign trade in the last half of the year. Shanghai's nonforeign trade enterprises, such as commercial, goods and materials, and science and technology district and county and other departments, whenever they have the need and are prepared to conduct import and export business, can open channels in Pudong and join with enterprises with import and export authority by taking out one another's stock and cooperation, benefitting from one another's advantages.

All productive enterprises (groups) in Pudong, if they meet conditions, can in principle be given authority to conduct their own imports and exports.

—Further open up authority to conduct foreign trade business to gradually form a great multi-level, multi-channel foreign trade pattern. Shanghai presently has 53 self-managed import and export productive enterprises (groups) involved with 507 factories. In the last half of the year, we will further move large and medium-sized productive enterprise groups toward the market. The approximately fifty productive enterprise groups that have applied to conduct their business, after screening by the municipal economic commission, will be approved in batches. Moreover, as required and under appropriate conditions, some enterprises will be permitted to conduct import and export trade in small amounts and some state-owned large- and medium-sized commercial and materials and goods enterprises will be given authority to conduct import and export business and district and county foreign trade companies will be established.

—Open up channels for foreign economic relations. Actively expand labor export. In the first half of this year, Shanghai signed a total of 65 foreign engineering contracts and labor agreements valued at US\$40.1 million and sent a total of 1,185 laborers abroad, bringing the number of overseas laborers to 3,617. To make use of the municipality's advantage in industrial and science and technology talent, this year the Foreign Economic Relations and Trade Department will strive to grant authority to conduct foreign engineering contracts and labor export to some enterprises that are prepared. For the multi-channel, multi-level development of the municipality's cooperative labor effort, we will concentrate, develop, and emphasize national and regional labor export and pay close attention to reforming the methods for efficient allocation of labor results. At the same time, we will develop civilian labor export.

—Implement a market diversification strategy and develop international business. In the first half of the year, the establishment of three overseas enterprises and six commodity departments in presently established overseas enterprises were approved and the number of people permanently assigned to overseas enterprises was increased by sixty-four. In the last half of the year, we will encourage foreign trade enterprises that are prepared, especially relatively strong enterprise groups, to strive to develop overseas and enhance overseas economic relations and trade organizations and windows, expand foreign markets, and speed up market diversification. At the same time, we will use the present overseas organizations to launch such experiments as allocation of reserves and explore the "whole case storage batch allocation" trading method and start new economic and trade businesses. We are making arrangements for seven export fairs, including the Moscow East China Export Commodity Fair, the Hamburg, Chile, Benin, and Nairobi Shanghai Export Commodity Fair,

the Kuwait Chinese Commodity Fair, and the Indian Chinese Technology Exchange.

—Further pick up the pace of the municipality's foreign investment utilization. In the first half of the year 502 foreign investments were approved attracting US\$867 million, an increase of 177.3 percent and 281.1 percent respectively over last year. We should continue to do a good job of macro-direction of district and county attraction of foreign investment and strive to exceed the number of foreign investments approved in the first half of the year in the last half of the year. We must pay close attention to tracking the progress of big projects and proposed projects of US\$5 million and above. We will actively promote the use of foreign investment and the development of third industries and actively solicit foreign business. We are making preparations to hold the October mayor's consultation and Sino-Indian bilateral investment negotiations.

—Speed up the transfer of government functions and further simplify administration and delegate authority. Based on a shift from micromanagement to enhanced macromanagement, the municipality's Foreign Economic Relations and Trade Commission will pay close attention to a series of delegations of authority such as completely delegating authority for approval of foreign investments of US\$5 million and under, including limited projects and sole investment projects, to districts and counties and also delegate administrative authority over already approved foreign investments. It also will draft further delegations of approval authority and simplify approval procedures for cancellation [of charges] on materials brought in to support exports, approval of trade in materials for processing and completion, administration of foreign advertising, and approval of the use of exports to replace imports, as well as exit approvals to resolutely cut out these unnecessary stages and levels. It also will promptly study enhanced price and market coordination and trademark controls and improve methods to administer export allocations.

To improve our work style and raise the efficiency of organizations, the Shanghai Foreign Economic Relations and Trade Commission leaders and various departments and offices will go down to the grassroots to investigate and research in a planned, goal-oriented way.

## AGRICULTURE

**Ministry Reports Burdens on Peasants Increasing**  
92CE0686A Beijing NONGMIN RIBAO in Chinese  
3 Aug 92 p 1

[Article by staff reporter Sun Luwei (1327 7627 1218): "Is It Known How Many Burdens Are Put on Peasants?"]

[Text] To lighten the burdens on peasants, the CPC Central Committee and the State Council have already issued many documents, and last year they promulgated "Regulatory Costs Borne by Peasants and Labor Management of Peasants." What is the current situation with regard to the burdens put on peasants? Recently, the Rural

Cooperative Economy Guidance Department of the Ministry of Agriculture made a comprehensive analysis of these burdens. The analysis shows that these burdens continue to increase.

#### **Agricultural Tax Publicly Reduced but Actually Increased**

In line with the agricultural tax regulations promulgated in 1958, the agricultural tax rate burden on the peasants was supposed to fall year by year. In the Second and Third Five-Year Plans, it was 11 percent and by the Seventh Five-Year Plan period it was less than 4 percent. But the actual statistics were: the total tax in the rural areas increased from 19.938 billion yuan in 1986 to 43.472 billion yuan in 1991, an annual average growth of 16.9 percent; the proportion of the peasants' average total tax in their average total income rose from 7.02 percent in 1986 to 8.81 percent in 1991, a rise of 1.79 percentage points in five years.

#### **Hidden Burdens Exposed**

The peasants, on the one hand, in the form of taxes provide to the state visible funds and, on the other hand, in the form of exchange at unequal prices, provide to the state and to the city and town residents a large amount of invisible funds (i.e., the price burden). In the early eighties, through an effort to raise the purchase prices of agricultural and sideline products, the price scissors for industrial and agricultural products narrowed for a time. However, from the Seventh Five-Year Plan on, it rapidly widened. According to calculations made by the State Statistical Bureau, the price scissors for industrial and agricultural products since 1989, for three years in succession, widened with an aggregate of 16.5 percent, and in 1991 it widened 5.1 percent compared with that in the previous year.

The analysis pointed out that after 1985 there was a tendency to expand the price divergence of agricultural products from value each year and the absolute amount of the price scissors. In 1991, as compared with 1989, the divergence between price and value of agricultural products rose from 19.86 to 26.16 percent. The absolute amount of the price scissors for industrial and agricultural products in the fifties and sixties was 20 billion yuan, jumped past 70 billion yuan in 1985, and reached 200 billion yuan in 1991. Compared to that in 1978, the price scissors burden on the peasant increased 42 yuan in 1985;

and, compared to that in 1985, increased 12.5 yuan in 1991. In 1991 the average price scissors burden on the peasant reached 217 yuan.

#### **Unwilling To Have Burdens Rise and Never Fall**

The apportionment of funds raising of a social nature and the fees and fines imposed of a marginal nature have put the peasants in circumstances in which they are at a loss what to do. According to nationwide statistics compiled by the Rural Cooperation Guidance Department, in 1991 the peasants for whom statistics could be gathered were unwilling to pay 1.77 billion yuan in administrative and operating fees, 2.31 billion yuan in various kinds of fines, 4.1 billion in funds-raising apportionments, and 3.81 billion yuan in other social burdens. The total per peasant was 13.8 yuan, 2.5 percent of his income in the previous year.

#### **Burdens of Unified Plan Withholding, Labor Affairs Are Heavy**

The burdens on the peasants for collective unified plan withholding and for labor affairs are becoming heavier with each passing day. In recent years, within the township-village collective economic organizations, the relationship between income and distribution has become skewed, and the burdens for unified plan withholding and for labor affairs have gradually increased, often breaking the norm. The 20.5 yuan burden per peasant in 1985 rose to 44.55 yuan in 1991, more than double and an average annual rise of 13.8 percent; the direct burden on the agricultural household rose from 15.3 percent in 1987 to 24.2 percent in 1991, an average annual rise of 17.5 percent.

In 1991 rural areas expanded a total of 8.6 billion units of compulsory work and labor accumulation work, 21.8 percent more than in the previous year; each labor force undertook 20.2 units, three units more than in the previous year; of this there were 1.077 billion work days in which money was substituted for labor, and the amount of each one was 37.42 yuan, 29.2 percent more than in the previous year.

The analysis pointed out that the increase in the peasants' burdens in the development of the rural economy and the increase in the peasants' income are not in synchronization, and that the former is obviously higher than the latter. It is worth pondering deeply why the peasants' burdens can never be truly lightened.



**Unpleasant Experiences in 'Learn From Lei Feng'**  
92CM0406D Beijing FAZHI RIBAO in Chinese  
1 Aug 92 p 5

[Article by Ben Niu (1149 3662)]

[Excerpts] On 15 Mar 63 Mao Zedong and other elder proletarian revolutionaries exhorted "Learn from Comrade Lei Feng..." In March 1990, General Secretary Jiang Zemin and others of a new generation of Central Committee leaders once again exhorted learning from Comrade Lei Feng. . . According to statistics from the first half of 1992, more than 100,000 Learn from Lei Feng Groups within and without the military enliven most urban and rural areas. Several 10,000 advanced Learn From Lei Feng individuals and collectives have turned this spiritual culture into a high tide. However, the contemporary "Lei Fengs" who represent this culture have run into unpleasant experiences: mental, legal, valuable and worthless.

**Unpleasant experience #1: Considering the military as one's benefactor.**

In recent years, more people are holding their hands out to the military for money. Local organizations that covertly want money from troops are expected to rise.

**Scene 1.** Radar soldier Chen Jian [7115 1696] was awfully busy on a large street of a certain naval port under the sign "Learn From Lei Feng Volunteer Repair Group" composed of navy men. Just before dusk a middle-aged woman who had just gotten off from work came by brusquely. She took her repaired television from Little Chen's dog-tired hands then turned and left with a smile. Little Chen reddened, speaking haltingly for a long time before he succeeded in stopping her with, "Ma'am, please pay 4.20 yuan." The woman doubtfully turned to say, "What, you take money while learning from Lei Feng?" [Chen replied,] "That's just the cost of replacing the transistor. We did not charge one cent for a service fee." The woman angrily fished out the money and unwillingly slapped it on the table, snorting, "That's really stingy. . ."

**Scene 2.** At the Jinan train station, a stylishly dressed girl with a worried face barred the way of Bai Hualin [4101 2901 2651], first lieutenant of a certain troop, saying, "Liberation army uncle, please! I'm from Sichuan. My purse was stolen. Please give me a few yuan to send a telegram. Aren't you promoting 'learn from Lei Feng'?" In no time, Bai Hualin, who only had six yuan left, had to save face at the sound of "learn from Lei Feng." He kept one yuan to board the train and gave five yuan to the girl. However, a moment later he discovered that the girl was pestering another soldier with "learn from Lei Feng..."

[passage omitted]

**Unpleasant experience #2: Always being "Master Dong-guo" [a naive person who gets into trouble through being softhearted to evil people].**

Soldiers doing good deeds by learning from Lei Feng often have their kindness requited with enmity.

**Scene 1.** On the Xunan Road near southern Qilidian, in Xiangcheng County, Henan province, a jeep headed north

was turned over in a deep ditch because its steering wheel was broken. All four tires were up in the air and the burst fuel tank was burning mightily. A liberation army soldier ran over and threw his overcoat onto the raging flames. He kicked open the door and in the few seconds in which he dragged five occupants out of the car, the fuel tank exploded; he saved several lives. Next, together with another woman, he found a way to send the burn victims to the No. 1 People's Hospital of Pingding city to be rescued. He was busy half the day and all night; he never did close his eyes. Named Xing Shigun [6717 4258 3340], he is stationed at Xiang. Little Xing also put out his own money to buy eight jin of fruit and call on the rescued from "Lanzhou Glorious Trade Company, Mt Pingding Branch." After expressing earnest thanks, one of those saved, a manager named Liu Genfeng [0491 2704 1496], said to Little Xing, "We've spent all the money we had on us. Our remittance hasn't arrived yet, so just be a true Lei Feng, ok?" The kindhearted Little Xing had borrowed 700 yuan. Once their money was in hand, the group slipped out of the hospital and has never been heard from since. . .

**Scene 2.** "Hello, elder brother! My future sister-in-law arrived here on the 25th. Mom and Dad are so happy they cannot stop talking. Everyone praises her beauty, diligence, and cleverness... Dad has already given her to take to you the 1,200 yuan for your wedding travels..." After receiving this letter from his younger sister at home in Henan, Little Li [2621], of the Guangzhou military area, who was a Buddhist monk, could not make heads nor tails of it: How could it be that he does not know his supposed own mate? And when did she go ask his family for money? As it turns out, Little Li met a girl on a train one month previously who cried as she stood next to him. When he asked her why, she said through her tears, "In order to find a wife for my 35 year old elder brother, my parents married me off to a cripple 25 years older than me. I refused this fate and ran away..." The girl's tears won over the empathy of many passengers. Little Li immediately wanted to get off the train and console her. Who would think that the girl would follow him off and implore him with, "Liberation Army elder brother, you are a living Lei Feng. Let me hide in your troop several days!" Little Li was very embarrassed and did not respond. Thereupon, the girl wanted to kill herself by jumping in front of an oncoming train; Little Li rushed to stop her. While at his troop for several days, Little Li revered his superiors and recounted to the girl how he overcame disappointments in love. He urged her to be strong. In the end laughter broke through her tears. She knelt down and said, "You are the 'living Lei Feng' who saved me. I consider you my own brother. After I get back, I will call on your parents." Then she asked Little Li to write down his parents' address. Who would have thought that she would "requite kindness" of the living Lei Feng in this manner?

**Unpleasant experience #3: "Apathetic" Masses**

Soldiers face violent acts committed by illegal social elements. Soldiers always are out there. However, they often contest with scoundrels alone in the public eye. . .

**Scene 1.** Sun Pinggui (1327 1627 6311) is a voluntary soldier at a certain unit of the Lanzhou military area. At about four p.m. one afternoon he discovered a young man stealing from a woman's purse while on the Zhangye city bus. He immediately grabbed the thief and wanted to take him to the public security bureau. Next, seven or eight of the thief's friends surrounded him, punching and kicking, shouting with wild arrogance, "Hey, soldier, this will teach you to mind your own business!" Then the scoundrels took out knives and cut his chest and belly. Blood flowed onto his uniform. Of the more than 30 bystanders who were there, not even one dared to stand up for justice. Not a soul rescued a true Lei Feng...

**Scene 2.** "Save me—!" While in a certain park in Kunming, Little Huang (7806), an army officer, ran to a secluded spot from where he heard this cry for help. He saw several youths surrounding and groping a pretty girl. Her blouse was ripped. The soldier shouted, "Stop!" An angry guy threatened in a low voice, "Hey, soldier, do you want to learn from Lei Feng? Then die, let's shed some blood!" Next a group of passersby came along and asked what was the matter. Little Huang said, "These rascals were going to rape this young girl." One of the scoundrels terrified the girl, saying, "Say it isn't so!" The girl took a look at Little Huang, and then at the scoundrels, and finally said, "It isn't." She shrank in her clothes and cowardly ran away through the crowd. Exasperated Little Huang was dumbstruck. The passersby cursed him as a "dumb soldier." The scoundrels attacked a moment later. Two knives were put into his back. Little Huang had no time to utter a sound. He fell to the ground and never rose again...[passage omitted]

### State's Efforts To Promote Physical Culture Viewed

HK2008061892 Beijing QIUSHI in Chinese  
No 11, 1 Jun 92 pp 12-15

[Article by Wu Shaoru (0124 4801 4371), Minister of Sports: "For the Sake of People's Health—Marking the 40th Anniversary of Comrade Mao Zedong's Inscription 'Promote Physical Culture, Improve the People's Health'"]

[Text] In June 1952, Chairman Mao wrote an inscription for the field of sports work: "Promote physical culture, improve the people's health." Since then, 40 years have passed. Today, reviewing Comrade Mao Zedong's inscription and instructions on sports work and new China's experience of developing physical culture and looking to future development in this field will certainly arouse the enthusiasm and creativity of the vast number of sports personnel for striving to improve the socialist physical culture undertaking with Chinese characteristics.

### I

The masses form the driving force to promote the development of social history. The masses, consisting of manual and intellectual workers, constitute the fundamental factor of social productive forces. People's health is a manifestation of people's quality, and is also a major indicator of the social development quality that reflects the level of social

progress and development. After the end of World War II, some developed countries came up with such new concepts and propositions as "physical investment" and "physical culture's" role in promoting the development of productive forces. In the past nearly half a century, many countries adopted various effective means to promote the development of their physical culture in order to achieve the dual purpose of raising the national quality and the social productive forces.

In the early years of new China, reconstruction had to be carried out in all fields. We not only had to carry out large-scale economic construction and change the poor and backward condition of old China, but also had to make great efforts to develop social undertakings in all fields, including the physical culture undertaking in order that the Chinese nation would "appear in the world as a nation with a high degree of culture." When drawing up the blueprint for new China's construction, Comrade Mao Zedong considered physical culture as an indispensable part of the socialist cause and as an integral part of our party's purpose of "serving the people" and "seeking benefit for the people." The inscription of "promoting physical culture, building up the people's health" was written against this background. Comrade Mao Zedong constantly advocated the need to build up the whole nation's health and civilization through promoting physical culture. He called on the people to "do physical exercise, play ball games, go jogging, climb mountains, go swimming, play tai qi quan, and take part in all sorts of sports as long as they can." When he was at the advanced age of his 70's, he still practiced what he advocated and went swimming in large rivers. This is a fact known to all people.

In the early 1950's, mass sports activities in our country began to develop rapidly from a weak foundation and a low level. The party and the government formulated a series of principles and policies in order to bring sports out of a narrow scope as recreational activities only enjoyed by a small number of people and to make sports serve the broad masses of people. In order to guarantee the people's right to take part in sports, the constitution of new China stipulated in black and white: "The state develops physical culture and promotes mass sports activities to build up the people's physique." "The state fosters young people, early teenagers, and children and makes them develop morally, intellectually, and physically in all aspects." At the 19th meeting of the Central People's Government Committee in 1952, the State Physical Culture and Sports Commission was set up, and Marshal He Long, who was of noble character and high prestige, was appointed to be the first minister of the commission. This provided a reliable organizational guarantee for the development of physical culture. In the past nearly 40 years, the department in charge physical culture and sports adopted a series of measures for implementing Comrade Mao Zedong's inscription of "promoting physical culture, building up the people's health," and made efforts to make physical culture serve the people and also encourage the people to participate in sports. Over many years, it successively

formulated the "Physical Culture System for Work Preparations and National Defense," the "Physical Training Standards for Young People," and the "National Standards for Physical Training." In 1989, the All-China Federation of Trade Unions promulgated the "Seven-Item Physical Training Standards for Workers in the Whole Country", and the General Staff Headquarters and the General Political Department of the Chinese People's Liberation Army also jointly promulgated the "Physical Training Standards for Military Personnel." The formulation and implementation of various sports systems gradually standardized the sports work, and greatly promoted the development of mass sports activities in all fields. According to statistics, a cumulative number of more than 500 million people in the whole country reached the national physical training standards. According to the principle of being voluntary and organizing diverse sports activities on a small scale, grass-roots sports associations and physical training groups were organized among workers throughout the country, and workers' sports teams were organized at the grass-roots level. In 1991, there were 102,000 sports organizations for workers throughout the country, and 47,000 organizations were sports associations. In 1991 alone, 1.515 million sports events were held throughout the country, and more than 40 million people participated in these sports events. There were 353,000 teams for all sports items. The Locomotive Sports Association in the railway department achieved marked results in promoting physical culture among the workers in the railway department, and won the "Award for Making Outstanding Contributions to Physical Culture and Sports" given by the UN Educational, Scientific, and Cultural Organization.

Peasants in our country have gradually changed their lifestyle of "going out to work at sunrise and going home to rest at sunset" that was kept for several thousand years. At present, peasants' sports associations have been set up in the 23 provinces and regions; sports guiding centers have been set up in 926 counties, and the cultural centers in more than 50,000 townships and towns have begun to organize sports activities. In the whole country, 259 counties have reached the standards of advanced counties in physical culture. People in various social circles have also begun to attach importance to the sports activities of old people and handicapped people. Now, some 16 million old people have participated in all kinds of sports activities, and more than 400,000 handicapped people also take part in physical training. When new China was founded, the life expectancy of our country was only 35 years, but it rose to 69 years in the 1980's and almost doubled. This showed that the improvement of the living conditions and medical care and the development of sports activities had obviously improved the physical quality of our people and had greatly built up the health of our people.

A particularly gratifying fact is that the material conditions for sports activities have been substantially improved, and people can more easily taste the joys of participating in sports activities. Old China only left 4,969 stadiums and sports grounds, so there was only one for every 100,000 people. If every sports ground had an area of 1,000 square

meters (sq m), the per capita area of sports grounds was only 0.01 sq m. At present, there are more than 530,000 stadiums and sports grounds, so there is one for every 2,000 people. The number of sports grounds increased 100 times, and the per capita area increased 90 times.

Of course, as our country's level of economic and social development is not high enough and we are still situated in the initial stage of socialism, the scale and speed of sports development are still constrained by the objective conditions and still cannot meet the needs of the people. There is no need for reticence on this point. So we are required to continuously raise the social productive forces and raise our country's comprehensive national strength under the socialist condition and to raise the people's living standards. At the same time, our sports undertakings should also consciously serve the party's basic line and make contributions to socialist modernization in our country.

## II

Promoting the mental and physical health of young people and children is part of the basic work for human society's civilization progress. Young people and children are undergoing the period of physical growth and knowledge accumulation. Their physical quality has a bearing on the nation's future. After the founding of new China, Comrade Mao Zedong, showing the foresight of a great thinker and statesman, paid close attention to the health conditions of young people and children in our country. In the summer of 1950, when he knew that young students had to bear study burdens which were too heavy and which affected their health, he immediately wrote a letter to Mr Ma Xulun, then education minister, and pointed out that "it is necessary to require all schools to attach importance first to students' health, and place study in the secondary position." At that time, some comrades in the educational circles did not understand this instruction, so he wrote another letter to Minister Ma Xulun in the spring of 1951 and reiterated: "I think the principle of health first, study second is correct." In the mid-1950's, Comrade Mao Zedong presided over the formulation of our country's educational policy: "Everyone who receives an education must be enabled to develop morally, intellectually, and physically, and become a worker with both socialist consciousness and culture." Here, the status of physical culture in education was explicitly affirmed, and the concept of "comprehensive development" was put forth scientifically. Moreover, on many occasions, Comrade Mao Zedong also called on young people and children to strive to "be good in health, in study, and in work."

According to Comrade Mao Zedong's instructions, our country constantly takes physical culture in school as the foundation of national physical culture and sports and as the strategic key point of the mass sports work. It is a joint program between mass sports and competitive sports. Beginning in the mid-1950's, schools gradually strengthened the teaching in physical culture, extracurricular activities, and health care for students. In particular, after the "Physical Culture System for Work Preparations and National Defense" and the standards for physical training were adopted, a new situation was created in school



physical culture. The two surveys jointly conducted by the State Physical Culture and Sports Commission, the Ministry of Education, and the Ministry of Public Health in 1979 showed that the physical growth condition of young people and children in our country had obviously improved. According to the calculation based on current and historical data, in more than 20 years between 1955 and 1979, the height of boys and girls in the age group of 7 to 18 years increased separately by 2.3 and 2.1 cm every 10 years, and their weight increased separately by 1.35 and 0.92 kg. In particular, the period between 1975 and 1979 recorded the highest growth rate. The 1985 statistics showed that between 1979 and 1984, the physique of young people and children was still improving. Of course, due to the differences in the social and economic development conditions between various localities and between cities and the countryside, there remain differences in the conditions for sports activities. In some localities and in some schools, the physical quality of students was not as good as in other localities and in other schools. Moreover, the examinations for entering a higher school remain a heavy burden for the students, and still produce an adverse effect on the sports activities and the students' health.

### III

It has become our party's tradition to attach importance to and care about the development of sports. From Mao Zedong, Zhou Enlai, Chen Yi, He Long, to many revolutionaries of the older generation who are still alive today, they all warmly advocated and supported sports. They also took the lead in participating in physical training. Some of them were chairmen or honorary chairmen of various sports associations for a long time. The second generation of party leaders with Comrade Deng Xiaoping as the core carried forward this fine tradition, and attached great importance to the sports undertakings and pushed them ahead to a new height and scope. In the 1970's, Comrade Xiaoping, as a vice premier of the State Council, personally took charge of the sports affairs. He resisted the influence of "leftist" policies pursued by the "gang of four," and supported the sports circles to organize domestic and international sports events. He stressed the need to extensively organize and develop mass sports activities, to strengthen physical culture education in schools, and develop outstanding sports teams and spare-time sports schools for children. He said that such sports as football should be promoted among children. He called for "raising the skills and winning honor for the motherland." He held that in the development of physical culture and sports, popularization should be combined with enhancement, and enhancement should be effected on the basis of popularization and popularization should be effected under the guidance of enhancement. Since the 1980's, competitive sports in our country "have dashed out of Asia and marched into the world." About one-third of sports items have reached or approached the world's advanced level. Our country has won the most gold medals in three consecutive Asian Games, and has won a total of 20 gold medals in the previous two Olympic Games. In short, China has emerged as important force in the Olympic sports activities in the world's sports arena. In 1990,

Beijing successfully organized the 11th Asian Games. At present, it is actively applying to host the 2000 Olympic Games. Such achievements in competitive sports are inseparable from our efforts to greatly promote the mass sports activities and build up people's physical quality since the early years of new China. At present, China's sports are still advancing along the course of coordinating the development of mass sports and competitive sports.

Since the Third Plenary Session of the 11th CPC Central Committee, eye-catching achievements have been made in our country's socialist modernization drive. The cause of reform and opening with Comrade Deng Xiaoping as its general architect has brought about a favorable opportunity for our country's sports to make a historic breakthrough, and has provided a favorable environment that has never been seen in any previous historical periods. At the same time, the economic structural reform has also brought about some new questions for the development of the sports undertakings, and has forced them to break through some outmoded conventions and to reconsider their future development course. In order to better meet the needs under the new situation, through reform in the past few years, the unitary system under which sports undertakings were almost all run by the state, especially by the physical culture and sports commissions at various levels, has been gradually changed, and a new multi-formed and multi-channelled pattern for the state and society to join hands in developing sports has taken shape. This has aroused the enthusiasm and initiative of various trades and industries in running sports undertakings, and has increased the self-development ability of the sports undertakings. Since reform and opening began, sports have been developing on an unprecedented large scale and at an unprecedented high speed. In the field of mass sports, an average of 5 to 6 million people every year reached the standards for physical training in the past years, and the total number exceeded 100 million people. In the last 13 years, a cumulate number of more than 400 million people reached the standards, so the annual average number reached 60 to 70 million. In the field of competitive sports, 95 percent of the 600 world champions were won in the last 13 percent, and some 200,000 stadiums and sports grounds were built in the last 10 years against the number of 300,000 in the first 31 years of the PRC. Over the past years, our country also helped other countries build tens of stadiums and sports grounds. The International Olympic Committee awarded the Olympic Cup to our country for commending our contributions to the development of sports in the world. The development of sports has benefited from reform and opening, and also promotes the cause of reform and opening in one aspect.

The decade of the 1990's will be a period of crucial importance for our country's modernization. As people gradually advance toward the target of becoming comparatively well-off, mass sports will inevitably further change and develop. First, sports will more widely enter the day-to-day lives of the people. Second, sports will become a more popular activity, and all people, men and women in all age groups, will more enthusiastically and consciously participate in physical training. Third, people will undergo

physical training in a more scientific way. Fourth, sports will become a form of social exchanges among the people, and will mainly be organized by society. Fifth, some industries related to sports will develop vigorously. In view of these changes and trends in mass sports, the work of the sports department should effect changes in the following five aspects: First, it should change from administrative work to social work. Second, the work which used to be handled only by the sports commission will be handled jointly by various units and departments in society, especially full play should be given to the initiative of society in running sports. Third, sports undertakings should be run as economic enterprises. For example, the stadiums and other places with sports facilities should charge fees and develop diverse business operation so that they can financially support themselves and effect self-development, thus bringing a benign cycle to their operation. Fourth, sports undertakings should change from welfare items into consumption items and offer paid service for the consumers. People should gradually get used to making investments for their own health. Fifth, the management system should be gradually improved and perfected. The development of the sports undertakings will rely more on the guarantees of laws and regulations. We can also summarize the mass sports work in the 1990's into "one, two, three, four." That is, first, promoting school education in physical culture, which is the strategic foundation of sports; second, promoting sports activities among workers and in the Army, which form the two important aspects of mass sports; third, giving full play to the role of the three major organizations—namely, the trade unions, the youth league, and the women's federations; and fourth, properly organizing sports among four categories of people—namely, peasants, national minorities, old people, and handicapped people. In short, we must continuously meet the sports needs in various aspects in society, thus achieving the purpose of building up the entire people's health.

#### **New Profession for College Students**

92CM04068 Hong Kong TA KUNG PAO in Chinese  
31 Jul 92 p 4

[Article: "Ninety-six New College Graduates Apply as Zhuhai Assistant Village Heads; A First for Inland, New for SEZ's"]

[Excerpt] [passage omitted]

The Zhuhai SEZ's invitation to new college graduates to apply for the post of assistant village head is a first for the mainland. In mid-July, 90 new college graduates from 56 institutions of higher learning inland left for different destinations in 16 villages of the Sandu area of western Zhuhai to take up the post of assistant village head. It is reported that the goal of these selections was to improve the educational quality of village-level cadres in the Zhuhai development zone.

[passage omitted] In the past year, personnel from the Sandu area of Zhuhai went to various colleges and vocational schools to popularize their area's development future and encourage college grads to come and work there. Their yearning efforts to seek the worthy impressed many students; one after another signed up to apply. Under the mainland's present cadre management system, village-level cadres are not determined by the state. Therefore, district governments uniformly manage the cadre relations of these assistant village heads. District and village governments jointly are responsible for their treatment.

A Zhongshan University student threw away the chance for an appointment at a national organization in Guangzhou and voluntarily came to rural western Zhuhai as an assistant village head. A female student from Tianjin University also gave up a chance to remain and work in Tianjin; she said goodbye to her parents and went south to Zhuhai. In the past, college students on the mainland all generally hoped to stay and work in big cities.

### PAP Assumes Direct Responsibility for Enterprises

93PJ0004

[Editorial Report] The People's Armed Police Enterprise Administration Bureau was formally established at an 8 September conference of enterprises directly subordinate to the General Logistics Department, according to the 12 September Beijing RENMIN WUJING BAO in Chinese. In the future, all People's Armed Police (PAP) enterprises and companies will fall directly under the supervision of this bureau. The bureau was set up to "strengthen leadership and administration" of PAP troops' production activities—at the end of 1991, PAP production revenues exceeded 300 million yuan for the first time. PAP production activities will continue to be constrained by the "six don'ts" principle, which stipulates in part that PAP production activities should not influence PAP execution of military duties, and should not pit the PAP against civilians in "competition for profit." At the 8 September conference, PAP Commander Zhou Yushu confirmed production as a "long-term task" for the PAP and demanded that his troops "abide by economic laws" when engaged in production.

### Guangxi Military Commissar on Defeating Counterrevolution

92CM03984 Nanning GUANGXI RIBAO in Chinese  
30 Jul 92 p 3

[Article by Guangxi Military District Commissar Zhang Guochu (1728 0948 0443): "Need To Be Skillful in Giving the Masses Confidence and Hope—Understandings Gained From Study of the Second Edition of *Selected Works of Mao Zedong*"]

[Text] Once again, I gained profound understanding from a recent re-reading of the second edition of *Selected Works of Mao Zedong*. In particular, the ideas and methods that Mao Zedong used when the revolution was at low ebb and history was at a turning point in immediately pointing out the direction of the revolution, scientifically expounding the conditions making victory in the revolution inevitable, and giving people confidence and hope provided profound understanding. Today, when the international communist movement is at low ebb and China is facing some contradictions and problems in accelerating reform and the opening to the outside world, each of us party members—particularly comrades engaged in leadership work—must learn to examine and deal with problems as Mao Zedong did, being skillful at giving people confidence and hope.

First, it is necessary to build solid revolutionary confidence on an understanding of the essence of objective matters. China's revolutionary war was conducted for a rather long period in circumstances of enemy strength and our own forces weakness. Therefore, how to recognize correctly the situations in which the enemy is strong and we are weak, and conditions needed for the reversal of roles becomes an important issue that combat leaders must first understand. The outcome of this matter has a direct bearing on the people's confidence in revolution, and the survival and development of revolutionary strength. From

the *Selected Works of Mao Zedong*, we can see that when Mao Zedong analyzed the strengths and weaknesses of the enemy's and our own forces in battle, he always related the size and the strength of forces to the nature of the battle. By analyzing the nature of the battle, he was able to determine the future and the trend of development of battles having a different nature. He tells us that China's contest of strength between armed revolution and armed counterrevolution, was a contest of strength of two different natures. The war that the imperialists and reactionaries wage is a reactionary, aggressive, unjust war as opposed to the war that the Chinese people wage, which is a revolutionary and just war against aggressions. In talking about the enemy's strength and our own weakness, we must realize that this is an expression of the quantitative difference in the strength of reactionary forces and revolutionary forces. The strength of the imperialists and the reactionaries is quantitative in the old state of affairs. It is a thing that is in decline; it is beginning to change into an antithesis. Our weakness, however, is quantitative in the new state of affairs. It is a new thing that represents the direction of society's development. Therefore, looked at in terms of battle prospects and the trend of development, the weak revolutionary force is bound to grow and become strong, ultimately triumphing over the powerful counterrevolutionary forces. In his "On Protracted War," Mao Zedong used this method to analyze scientifically four different basic characteristics of China and Japan as the enemy being strong and ourselves weak; the enemy retreating, ourselves advancing; the enemy small in numbers, ourselves large, and the enemy having scant support, ourselves having much support to reveal the objective laws whereby the war of resistance against Japan would develop. He made clear that the course of the war would go from China being weak, to parity, to dominance, and from China being on the defensive, to stalemate, to counterattack, i.e., three stages of strategic defense, strategic parity, and strategic counterattack. He presented the scientific thesis that "the Sino-Japanese War is a protracted war in which China will ultimately triumph." He thoroughly criticized both the theory of subjugation and the theory of quick victory, thereby strengthening the confidence of the people of the whole country in the War of Resistance. The socialism that we are building today has a distinctively Chinese character. It is a new thing born of the revolution. Even though it is still not completely perfect in many ways, is not entirely as people desire, and is still relatively weak, and although there are all sorts of difficulties on the road ahead, it is in keeping with the development of society, is consistent with China's circumstances, and reflects the common desires of the people of the whole country. Therefore, fundamentally speaking, it possesses powerful vitality and is bound to triumph. It is bound to become more and more perfect and stronger and stronger as we further accelerate the pace of reform and the opening to the outside world. We must have full confidence in this.

Second, we must both point out the inevitability of victory in the revolution and also show the conditions and the methods needed to win victory. Revolution will inevitably triumph over counterrevolution; for weakness



to triumph over strength is entirely possible. However, how can this inevitability and this possibility be translated into reality? Or, put another way, how can the conditions be created that permit the translation of revolutionary forces quantity into quality so that the new quality will rapidly grow, become strong, and ultimately gain a controlling position? Mao Zedong taught us a scientific way. During the early stage of the War of Resistance, for example, while pointing out that "ultimate victory will be China's in the War of Resistance," he also pointed out that translation of this possibility of "ultimate victory" into a reality would require making fullest use of people's subjective initiative, and the adoption of correct strategic and tactical guiding principles. It was for this purpose that he formulated the general principles of protracted war, espousing the idea of people's war, mobilizing the masses and relying on the masses to wage an all-out war of resistance. He also formulated a series of concrete combat policies and principles. During the early period of the war of liberation, Mao Zedong both pointed out the anti-people character of Chiang Kai-shek's war and the patriotic and correct revolutionary character of the People's Liberation Army war. "Not only must we defeat Chiang Kai-shek, but we can defeat him." In addition, on the basis of the objective realities at that time of a strong enemy while we were weak, a numerous enemy and our own small force, a well-armed enemy and our own weakness in arms, and the enemy on the offensive while we were on the defensive, he set forth a series of correct strategies and tactics such as despising the enemy strategically, regarding one of ourselves as counting for ten of them, and using a small force to defeat a large one; respecting the enemy tactically, regarding ten of our own as one of the enemy, and using many against a few; fighting a protracted war strategically, but fighting a quick war tactically; waging a defensive war strategically, but waging an offensive war tactically; fighting on interior lines strategically, but fighting on exterior lines tactically. By following Mao Zedong's teachings, within only a single year the PLA annihilated 1.12 million of Chiang's forces, beat back all-out enemy offensives and attacks against key points to win a magnificent victory in the first stage of the war of liberation. This deflated the enemy's arrogance and prestige, greatly strengthened the people's will, and built up the confidence of the whole party and the whole people in winning complete victory in the war of liberation.

Waging a war is like this, and building a distinctively Chinese brand of socialism is also like this. Not only must we make the broad masses of people always have unshakable confidence in our course and be willing to join us in battle to win victory, but we must also point out to the masses the conditions and the methods for attaining this goal. Nowadays, when we encounter this or that difficulty in the course of accelerating reform and the opening to the outside world, like Mao Zedong, we must take a correct standpoint. We must completely, properly, and realistically analyze and deal with the difficulties we face. First, we must tell the masses clearly

the reasons for these difficulties and problems. At the same time, we must tell the broad masses that since the Third Plenary Session of the 11th Party Central Committee, we have unwaveringly supported the party's basic line, and that we have drawn up a series of genuinely feasible plans and policies to make China's economy flourish, to bring political stability, and to improve steadily the people's standard of living. These achievements provide favorable conditions for us to overcome difficulties. In this way, the broad masses can feel in specific ways that our cause is moving ahead steadily and has great prospects. Then they can work together with us heart and soul to eliminate countless difficulties and win victory.

**Naval Unit Assists Local Economic Development**  
92CM0398B Nanning GUANGXI RIBAO in Chinese  
31 Jul 92 p 1

[Article by Meng Xingzhong (5536 2622 1813) and Peng Qizhen (1736 0366 2182): "Navy Unit Actively Serves Coastal Areas in Reform and Opening to the Outside World"]

[Text] A navy unit stationed on a bay in north China is actively serving the building of the local economy even while completing strenuous training and strategic tasks.

In 1991, when the unit leaders learned that the local government want to do work on Jinzhou Harbor, they took the initiative in approaching the municipal government to obtain an assignment, taking over the task of surveying for harbor construction. They sent out vessels on more than 10 trips carrying more than 600 high level leaders and surveying technicians, and they also dispatched landing craft to drive piles in Jinzhou Harbor. Officers and men braved fierce winds and battled ferocious waves, many men giving up opportunities to return home during the lunar New Year to be with their families to wage a round-the-clock battle at the work site for a month. They completed their task at the required quality and quantity. In order to help development of the coastal economy in the garrison area, following the reduction and reorganization of forces in 1987, they turned over the Bailong military harbor wharf, free of charge, to the Fangcheng minority nationalities autonomous county for use in developing the bay economy and border trade.

This unit also did all possible to safeguard the interests of the public. In 1991, its officers and soldiers battled to rescue materials in a warehouse belonging to the No 2 Knitting Mill in Beihai City, salvaging materials worth more than 50,000 yuan. When a 4 force wind struck Beihai City in 1992 breaching more than 20 meters of the Dijiao Town protective dikes and cascading sea water inside the dike, the people's lives and property were seriously threatened. At this crucial time, the garrison forces immediately sent out a more than 100 man commando force and three vehicles to deal with the emergency. At the risk of being carried away by the sea water, they filled more than 1,000 sandbags in a more than four hour battle, finally securing the dike.

According to incomplete statistics, this unit has travelled more than 20,000 nautical miles during the past two years to protect fishing ships and sea lanes. It has rescued more than 10 fishing boats in difficulty, and salvaged property worth more than 1 million yuan. It has sent out

ships more than 100 times, and motor vehicles more than 2,000 times, and personnel have made more than 20,000 trips to help the local government perform surveys, do prospecting, and effect rescues, helping to build the local economy through real acts.

### **Suggestions for Attracting Foreign Investment**

92CE0594A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 2273,  
15 Jun 92 pp 12-14

[Article by Chou Yuan Huan (6650 6678 2970)]

#### **[Text] Summary**

Since Deng Xiaoping made his comments on an inspection trip to southern China the first of the year, China's opening to the outside has been showing signs of vigorous activity. The use of foreign capital is an important aspect of opening to the outside. In recent months, the media, business and labor circles, and even related government agencies have been studying and discussing this topic on various levels, of quickly attracting foreign investment to China. These signs indicate that an important policy revision is under way regarding this matter.

#### **Existing Problems**

##### **1. Foreign Investment Attracted Only on Small Scale**

After reforms were initiated and China opened to the outside, the average annual growth of foreign capital attracted to investment in China has been more than 20 percent. But generally speaking, the foreign investment attracted still remains at a rather low level. During the 1980-1990 period, the amount of foreign investment only comprised about 2.8 percent of the fixed asset investment for the society as a whole, and for 1991, this figure was only about 4.5 percent, most of it in the special zones along the China coast. Compared with other developing countries, foreign investment as a proportion of the state's economy and the amount of foreign investment per capita are far lower for China. The absolute figure for foreign capital attracted annually is still lower than figures for Thailand, Malaysia, Indonesia etc.

##### **2. Level of Foreign Investment Not High**

By the end of 1991, China had already approved the setup of 43,000 foreign trade enterprises [joint ventures, contractual joint ventures, and wholly foreign-owned enterprises, generally referred to as "three kinds of foreign trade enterprises"] in which foreign businesses had agreed to invest U.S.\$51.4 billion. When the amounts invested per project item are considered, the average was less than U.S.\$1.2 million per project item. If we exclude investments in real estate such as tourist hotels and guesthouses, the actual investment per project item would average only U.S.\$900,000. Items in which investment exceeded U.S.\$100 million number only several scores. Those items produced in the special zones along China's southeastern coastline are mostly small process-for-export items requiring investments of about U.S.\$100,000. According to presently observed criteria to classify large-, medium-sized and small project items, about 98 percent are small items and about 2 percent are large- and/or medium-sized ones. Because of the small amount of capital invested for each project item, production is necessarily on a small scale, making it difficult for the enterprise to operate on a reasonably efficient level or reap the benefits from such an operation.

The course to select and take is how to liberalize or revise policy in such a way as to encourage foreign businesses to increase their investment in large- and medium-sized technique-intensive items that are compatible with revision of the nation's property policy and the direction to be taken with its development. At the same time, we must study the suitable opening of the third estate, which serves development of the first and second estates, to allow it to develop more rapidly.

##### **3. Excessive Differences Between Development in the Coastal Zones and the Hinterland**

During the 1980's, China's opening to the outside and its use of foreign capital were concentrated mostly in the opened up zones along the China coast. Production of items from enterprises located in the interior that are capitalized by foreign investment and the amount of foreign capital attracted for these enterprises only comprised 9 percent and 7 percent respectively, of that for the nation as a whole. The difference in economic development and the degree of opening to the outside between the interior and coastal zones continue to grow (at present the per capita gross national product and per capita income for the coastal zones are already one-fold over these figures for the interior areas). This situation is not beneficial to the coordinated development of the national economy, a situation which may lead to curtailing continued development in the coastal zones.

#### **Breakthrough in Understanding the Key**

To increase the pace of attracting foreign investment, we must first eliminate any apprehension in our thinking, and properly recognize the importance of utilizing foreign capital in modernization.

Does permitting the products from the three kinds of foreign trade enterprises to be sold on the domestic market a threat to China's national industries? The important motive for international capital to invest overseas is to expand market share. The fact that some internationally known transnational companies select China as their investment target is the potential of the great market in China. According to this view, whether even more transnational companies with abundant capital and technical expertise will invest in China now and in the future, and increase their capital investment and the number of large- and medium-sized technique-intensive items they will produce is determined largely by the extent that the domestic market will be opened to products manufactured by foreign trade enterprises. Therefore, establishing a policy of trading markets for technology is a necessary choice at the present time.

How we regard the relationship between opening domestic markets and developing national industries is the basis for establishing this policy of trading markets for technology. In the first place, those products that cannot be made domestically but are essential, particularly hi-tech items and products that can be made in China but are not manufactured because of production factors, would have to be imported. Rather than having them imported, would it not be better to ease restrictions and promote the



manufacture and marketing of such items produced by enterprises capitalized by foreign investment?

Next, we can trade opening the domestic market for advanced technology and management experience. This would directly stimulate technical reforms in presently functioning enterprises, thereby raising the overall quality of the national economy, and providing a foundation and conditions for national industries to develop further.

Again, introduction of goods produced by the foreign trade enterprises into the domestic market may provide a stimulating environment for other enterprises in China. The effect of such foreign trade enterprises, serving as examples and models, is a beneficial one, where their products, technical expertise, and management and operation style can exert changes in the development and operation mechanisms of other enterprises in China. To step up their technological progress and product quality, China's automobile industry and those engaged in manufacturing elevators, digital equipment, telecommunications equipment, food, beverage, domestic electrics, digital-controlled tools, instruments, glass, pharmaceuticals etc., which are subjected to competition, will enter a new manufacturing phase by shortening the gap between themselves and the advanced technology used abroad to improve their competitiveness on the international market. Through coordinated assembly and technical cooperation, this can spur development in related fields.

Now, when this great socialist mode of production has torn down national boundaries, we should also have a new and broader understanding of "national industries." Traditional protectionism is not good for developing national industries. We should pay attention to protecting and developing national industries against a backdrop of great economic exchange and circulation in the international economy. We must implement an open form of protection, where protection is for the sake of development, and not for backwardness. Of course, in opening a market, care must be taken to selecting the site. We must, in the near future, identify those import substitutes, short-line domestic products, new and young enterprises, providing them suitable protection.

Now, will rapid development of the three kinds of foreign trade enterprises come into conflict with the leadership role of the public ownership system? In recent years, the rate of growth in the industrial output of these foreign trade enterprises greatly exceeded that of the state operated enterprises. In 1990, the value of their output reached 70 billion yuan, about 3.6 percent of China's gross industrial output. Some people were worried that should this situation continue, the leading role of the public ownership system will be threatened. Naturally, such psychology will affect the policy makers. If this ideological baggage is not thrown off, it will be difficult for the use of foreign capital to make any progress. Right now, a consensus regarding development of foreign trade enterprises and development of state-operated enterprises being compatible with each other is gradually evolving, and there is no problem of the public ownership system being threatened.

### How To Step Up the Attraction of Foreign Capital

A common understanding by many on how to step up the attraction of foreign capital calls for seizing the opportunity, based on past experience and lessons learned, to revise the direction and policy for using foreign capital. The overall direction and policy presently and for the future calls for taking advantage of the current low cost of materials and labor, and the idea of China's great market potential, to trade market for technology in an effort to attract foreign investment in large- and medium-sized technique-intensive items. Various policies must go, in transition, from a regional tilt to a tilt toward trade, for foreign capital investment to make even more sense. Based on the circumstances, we must actively create conditions to gradually give enterprises capitalized by foreign investment national standing.

(1) *Policy of Trading Market for Technology.* We must remove restrictions on the set ratio for domestic/import products, where such items as machinery and electrical products, raw materials, spare parts and components that are imported in greater volume are concerned. Enterprises should be permitted to freely transfer foreign exchange from the foreign exchange regulating market to balance their foreign exchange receipts and outlays, so that enterprises can, on their own and based on market conditions, select domestic or foreign markets, to attract large internationally known transnational companies and enterprises to China to invest in new and high-tech products and large- and medium-sized items.

(2) *The scope of Foreign Business Investment.* Except for agencies and departments concerned with national security, it is not advisable to add any more restricted areas off limits to foreign capital. With respect to service industries dealing with banking, insurance, transportation, quality control, commerce, law, accounting etc., that are restricted or off limits for foreign investment, we must consult general international practice and try opening up these areas and gradually expanding them, to promote development of the first and second estates and the social economy. We must ease up on the restriction that limits foreign investment in real estate, to rapidly promote development of a real estate industry.

Regarding the prospect of foreign investment in property, we must gradually change the present situation where various localities compete with each other by offering favorable treatment such as reduction or elimination of taxes, to attract foreign capital, and make the transition into a policy of favored treatment of varying degrees, as based on China's property and industrial policy. It is necessary to focus on different kinds of properties with different measures so as to attract foreign investment.

(3) *Leading Industries.* According to the present industrial situation and the special features involved in attracting foreign investment, machinery, electronics, and young new industries may be grouped as the leading industries to attract such investment. They also include the automobile industry, automated equipment and machinery industries etc. The sensitivity of such industries to development of

the national economy is comparatively higher, their connectivity is also higher, and their development must spur corresponding development in the steel industry, the heavy chemical/engineering industry, the young materials industry, the manufacture of equipment and instruments, the rare metals industry, etc. With respect to the leading industries, we must follow the policy of trading markets for technology mostly, for other favorable treatment policies are only secondary in attracting foreign investment.

(4) *Exports for Foreign Exchange.* During the period of the Eighth Five-Year Plan, the industry most responsible for exports for foreign exchange was the textile industry. However, with the stepped-up pace in technological progress, during the latter part of the 1990's, the industries assuming a greater proportion of exports will include those in the fields of precise chemical engineering, machinery and electronics, shipbuilding, spaceflight etc., and some of these will become important as exports to obtain foreign exchange. Most importantly, these industries must undergo reform in their management and enterprise systems by having the old enterprises use foreign capital to make technological renovations and improve or replace their product lines so as to increase their international competitiveness.

(5) *Basic Industries and the Raw Materials Industry.* The operating cycle for production in these industries is long, capital investment is great, and investment risk is high, so it is necessary to provide favorable tax treatment, and ease restrictions on operation time limits, balance of payments etc., as well as provide conditions to make it profitable for the investor.

(6) *How the Hinterland Should Step Up the Attraction of Foreign Investment.* Because of greatly different conditions found in various provinces and regions in the hinterland, supporting a broadened opening to the outside for these areas to attract foreign investment calls for implementing a unified policy on one hand, and treating each area individually according to different conditions on the other. In the first place, favorable treatment policies enjoyed by the coastal provinces and cities, such as their having limited authority to approve foreign investment, favorable trade policies, reduction or elimination of duties on imports for foreign trade enterprises and on imported personal use products for foreign business persons etc., must be allowed the hinterland regions. Next, ports opened to the outside along the Yangzi River, the Huang Ho, and continental bridges must be expanded, and support to the

economic development zones in the interior must be continued. Moreover, these areas must be permitted the privileges of favored treatment as enjoyed by the coastal development zones, in the matter of import duties levied on goods, capital needed for basic construction, and relief from the responsibility of paying profit taxes (all or reduced) for a certain period of time. Finally, some special policies focusing on the special characteristics of individual provinces and regions in the interior must be made. Limitations must be eased for developing mineral, forestry, agricultural, and animal resources in those interior provinces and regions so endowed, and also for use of foreign investment in the raw materials industry. As to the prospective targets of foreign investment, those items subject to limitation for production in the coastal zones must still require approval based on the need for them in the interior before further action can be taken.

(7) *National Status for Foreign Trade Enterprises.* During the past ten years, at the same time that foreign trade enterprises were granted favorable treatment on income taxes and custom duties, a series of laws related to foreign nationals have been established to make management of these enterprises different from that of state-operated ones. On the other hand, the treatment given some foreign trade enterprises is not like that for other industries in the country. From now on, we must observe general international practice to gradually allow national standing to foreign trade enterprises; that is, to allow them to enjoy treatment not less than that given other enterprises in China. Urgent problems requiring solution at present include fixing the price for supply of certain raw materials according to the international market price, resolving the high cost of television advertising and telecommunications, and streamlining the receipt of foreign exchange.

(8) *Developing a Formula To Attract Foreign Investment.* Following the opening of stock markets on a global scale, various international companies have been issuing stock and bond certificates in the stock markets of different countries to raise foreign capital. The foreign trade enterprises in China at present are companies with limited responsibility. Risk in this type of enterprise is more centralized, and under these circumstances, it is more difficult to raise large amounts of capital. This, in turn, limits the manufacture of large- and medium-sized items. At present, we must actively promote adoption of the limited stock company format, so as to increase the attraction of foreign investment, and draft regulations for establishing limited stock companies capitalized by foreign investment as soon as possible.

## EAST REGION

**QIUSHI on Suzhou CPC Organization, Economic Reforms***HK2108021192 Beijing QIUSHI in Chinese No 12,  
16 Jun 92 pp 31-34*

[Article by Zhu Yan (2612 1484): "Organizational Work Must Better Serve Economic Construction—a Survey of Suzhou City"]

[Text] Suzhou City in Jiangsu Province achieved steady and rapid economic progress through reform and opening. In 1991, its industrial and agricultural output value totaled 75.7 billion yuan, 5.8 times that of 1980, while its gross national product reached 23.5 billion yuan, six times the 1980 figure—ranking fourth in the whole country after Beijing, Tianjin and Shanghai. Although the province was hit by the biggest floods of the century last year, it still achieved a 20 percent growth in industrial production and reaped a bumper agricultural harvest. Suzhou could achieve steady and rapid economic growth because of its privileged position. It has a well-developed economic foundation to begin with. Its easy accessibility makes it attractive to overseas investors. It is also close to big cities like Shanghai and Nanjing. Another important reason for its success is that the city's party and government leaders, past and present, have all unswervingly implemented the basic line of "one central task and two basic points," done a good job of party-building around the central task of economic construction, and used party-building to promote economic construction. Their main experience is as follows:

**I. Use the Party's Basic Line To Arouse the Enthusiasm and Creativity of Party Members and Cadres for Developing the Economy**

The Suzhou City CPC Committee maintained that in order to promote economic construction, the important thing was to reach a common understanding among leading departments and leading cadres on the party's line, and arouse the enthusiasm and creativity of the vast numbers of party members and cadres for developing the socialist commodity economy. They saw this as the most important guarantee and best service for economic construction. They consistently regarded the all-round implementation of the party's basic line and the effective promotion of economic construction as the most regular and fundamental task in the strengthening of leading organs at the city and county levels. By seeking unity of understanding among members of leading organs, they were able to promptly eliminate interference from the "Left" and Right. City Party Secretary Wang Minsheng [3769 2404 3932] said: Whether or not leading <sup>organs</sup> at the city and county levels are well-run depends on whether or not they take economic construction as their main task. If they fail to eliminate interference and cannot develop the economy with one heart and one mind while strengthening party-building, they cannot become strong and powerful. When rectifying the erroneous tendency of stressing material progress at the expense of cultural and ideological progress

a few years ago, some leading cadres were a bit apprehensive about economic construction. The city party committee pointed out: Grasping two tasks simultaneously means that the task that has been neglected should be strengthened while the task that has been stressed should be further strengthened; it does not mean that we should slacken economic work. Party organizations at various levels were urged to closely combine party building with economic construction, find a meeting point between the two in practice, merge the two tasks into one and pull efforts together in order to truly "grasp two tasks with equal strength."

The Suzhou City CPC Committee always took the emancipation of the mind of cadres and the enhancement of their enthusiasm as the key link in activating the economy and liberating the productive forces. Several years ago, Taicang County experienced zero economic growth. The market was slow and enterprises sustained losses amounting to over 9 million yuan. The enthusiasm of the vast numbers of cadres was dampened. They became dispirited and grew resentful, and the relations between cadres and the masses became strained. The city party committee appointed a new county party secretary and put forward this call: "In order to activate the market, it is necessary first of all to activate the mind; in order to invigorate the economy, it is necessary first of all to enhance people's enthusiasm." After taking office, the new party secretary first organized the members of the county party committee to study the party's basic line, and made an earnest effort to make a clean sweep of salient ideological problems within the county and township leading groups and within the ranks of cadres, problem such as not feeling any urge to carry out reform, feeling passive and resentful, serious internal wastage, being afraid to grasp economic tasks and unable to remove their lingering fear. Subsequently, ideological education on the need to emancipate the mind, strive hard to forge ahead, be bold in competing with others, and conscientiously serve and bring benefit to the people was conducted among cadres. Resolute steps were taken to carry out readjustment among a number of cadres who had long remained dispirited and had made no effort to make progress, and to promote leading grass-roots cadres with both ability and political integrity to departmental offices. As a result, the economic situation in Taicang County underwent amazing changes within the short span of one year. It reaped a bumper grain and cotton harvest in a year of great disasters, with output hitting all-time records. Compared with 1990, foreign-funded enterprises increased by 1.8 times, export volume rose by 68 percent, and total industrial output value registered a 44 percent gain. All 24 townships and towns in the county reported profits. Personal savings increased by 300 million yuan, with per capita savings ranking first in the whole country.

Qin Zhenhua [4440 2182 5478], former party secretary of Yangshe Town under Zhangjiagang City, showed the spirit of daring to go all out in work and became a pace setter in turning the smallest and poorest town in Suzhou into one of the nation's "star towns and townships." He himself was



elected a national outstanding party worker and outstanding leading cadre for two years in a row. Last year, after taking office as party secretary of Zhangjiakou City, he called upon all cadres in the city to "fight to be the first, hoist the red banner and march at the head of processions," and to strive to be file leaders of Suzhou. The Suzhou City CPC Committee promptly publicized this spirit in the whole city, and called upon leading cadres at all levels of the city to model themselves after him, cultivate the spirit of "striving to be the first in all work and refusing to give up until amazing achievements have been made," and grasp economic work with one heart and one mind. At the same time, a series of advanced models were set up, and all forms of activities to emulate, learn from, catch up with, surpass and compete with were launched. At present, the soaring enthusiasm among the city's party cadres to strive to become first-rate and set good examples has given a forceful boost to economic construction.

## **II. Combine the Standards for Cadres' Political Integrity and the Standards for Ability**

1. Evaluate one's political integrity and ability through practice, and employ cadres on the basis of their track record. In the last few years, organizational departments at all levels of Suzhou City have been adhering to the viewpoint of practice first in the selection of cadres and the observation of leading groups. They ignored unsubstantiated political integrity or ability. They maintained that cadres who had firm faith in socialism and had a strong enterprising spirit and sense of responsibility in leading the masses to develop the collective economy and take the road of common prosperity had political integrity; and that those who were able to lead the masses in achieving material progress as well as ideological and cultural progress had ability. The political integrity and ability of cadres ultimately have to be expressed through actual achievements in work. Thus, organization departments at all levels of Suzhou City paid attention to spotting and selecting outstanding pioneers and men of action on the first line, and promoting cadres from among leaders who had the courage and ability to change the appearance of backward places. From last year to the beginning of this year, six of the seven newly promoted city-level leading cadres were either county party secretaries or magistrates with an outstanding track record; 30 of the 74 newly promoted county or district leading cadres were either party secretaries or magistrates of the city's "star" townships, towns and neighborhoods; and 139 of the 478 newly promoted township and town leading cadres were either party branch secretaries of advanced villages in achieving material, ideological and cultural progress, or leaders of town and township enterprises with outstanding economic performance.

2. Compete on an equal footing in practice so that only the best survives. In promoting cadres, the organization departments at various levels of Suzhou City cast away the old concepts of going by seniority and demanding perfection, and boldly introduced the competition mechanism so that outstanding people can show their talent in a favorable environment which allows people to go up

and down and which ensures that only the best survives. When Qin Zhenhua was party secretary of Yangshe Town under Zhangjiakou City, he was already over 55 years of age. He did not have a college diploma, but because of his outstanding track record, he was made an exception and promoted to secretary of the Zhangjiakou City CPC Committee. The overwhelming majority of people promoted in exceptional circumstances to be leading cadres of town and townships in Suzhou City in recent years had all climbed up from the first line of villages or town and township enterprises. Most of them were peasants themselves. At the same time, cadres who remained mediocre in their performance for a long time and failed to open up new prospects were shown no mercy and asked to step aside. Last year alone, 30 incompetent leading cadres of towns and townships in the city were reassigned to other jobs. This competition mechanism greatly aroused cadres' enthusiasm and creativity and inspired them to press on industriously.

3. Correctly deal with the shortcomings and mistakes of cadres, be bold in reinstating them while giving them help and education. In the mass drive to develop the socialist commodity economy in Suzhou City, a group of "versatile persons" who were well-known in the city, province and even the whole country emerged. They were resourceful, bold, resolute and experienced in running enterprises and doing business. However, they also had shortcomings and had made mistakes to a greater or lesser extent. The Suzhou City CPC Committee made bold use of these people while stepping up their training and education. A self-employed party member in Zhitang Town under Changshu City became a well-known "versatile person" by selling roasted melon seeds. However, many people frowned upon him, and there was a lot of street gossip about him. Seeing in him the strong desire to contribute toward the common prosperity of his village, the town party committee prevailed over dissenting views and boldly appointed him director of a village-run enterprise. With the trust and support of the party organization, he voluntarily turned over the private enterprise to the collective. Under his leadership, the cadres and masses of the village achieved an output value of 105 million yuan in 1991. The village became the most prosperous village in the whole city, with profits and taxes amounting to 15 million yuan. He has now been elected secretary of the village general party branch. A worker who was transferred downward to Xizhang Town under Zhangjiakou City for tempering had once made mistakes and was punished for them. The town party committee, aware of his ability in handling economic affairs, overlooked his past and invited him to run a village rubber plant. At the same time, the town party committee specially assigned persons to give him education and guidance, and placed strict demands on his ideology and workstyle. Today, under his leadership, the small village-run rubber factory has become one of the country's top foreign exchange earners, with an annual output value of over 100 million yuan and export turnover exceeding \$10 million. He himself was elected one of the country's top ten town or township entrepreneurs. In recognition of his performance, the party organization

recruited him into the party and promoted him to be the town's deputy party secretary.

4. Carry forward healthy tendencies, support and bolster up cadres on the first line. Xu Guanxiang [1776 7070 4382], director of the Shengze Town Silk Printing and Dyeing Plant in Wujiang City, has a way with running his factory. Within a few years, he managed to turn a small town enterprise into one of the country's largest town and township enterprises, with an annual output value of 600 million yuan and profits and taxes amounting to 60 million yuan. Because of his boldness in carrying out reform and his strictness in management, he had made a few enemies. Through investigation and verification, the city party committee's organization department and the Wujiang City CPC Committee openly clarified the facts and ruled out the reproaches made against him. They also summed up his advanced deeds, widely publicized these deeds on radio, television and newspapers, and called on all party members and cadres to learn from him. Over the years, the city party committee has upheld justice for and backed up more than 100 pioneers and men of action like him. For a while, some people working in departments directly under the administration of Taicang County had a habit of nitpicking and making irresponsible remarks about people engaged in actual business. The county party committee resolutely put the brakes on this evil wind. In addition to openly criticizing this practice in big and small meetings, the county party committee also had 25 such people transferred out of the directly administered organs so they could go through tempering and heighten their awareness in practice. After some time, many of these people also became men of action themselves.

Toward those cadres of town and township enterprises who devoted all their energies to the development of the collective economy regardless of personal gains or losses, the Suzhou City CPC Committee adhered to the policy of giving full expression to the need to encourage the advanced without showing favoritism, determined the pay and conditions of cadres in accordance with their track record, and helped cadres resolve practical problems relating to livelihood, family, and so on. In Zhangjiagang City, it was stipulated that persons in charge of town and township enterprises that achieved a high output and good performance and became leaders in their respective trades in the city would be eligible to the pay and conditions of the grade of township-level deputies. In Taicang County, it was stipulated that leading persons of enterprises with profits exceeding 1 million yuan for three years running would be eligible to pay and conditions for assistants to township and town magistrates, and would be issued quotas for changing people's residence registration from a rural to non-rural one in accordance with relevant stipulations. In Wujiang City, it was stipulated that principal persons in charge of villages with annual profits in excess of 1 million yuan would be given annuity by the County Insurance Company. In Changshu City, it was stipulated that enterprise cadres with special contributions would be eligible to full wages after retirement. These practices are

not only conducive to the straightening out of party workstyle but have effectively dispelled the worries of these cadres.

5. Pay attention to the training and tempering of young cadres. Since 1989, Suzhou City has trained over 1,000 young leading cadres of towns and townships through various types of training courses. Counties (cities) have also established links with colleges and universities to provide training for more than 110,000 young cadres of town and township enterprises and village-level organizations. The city party committee called on leaders at various levels to pay attention to both economic returns and manpower development, urging them to infuse the work of training young cadres into the entire process of reform, opening the country to the outside world and developing the economy. The idea is to rely on enterprises to develop human resources, and rely on human resources to promote enterprises. Thanks to this strategic vision, Suzhou City has seen people of talent coming forth in large numbers. Over the past few years, two provincial-level cadres and 36 prefecture- and city-level cadres have come from Suzhou City. Leading bodies at various levels of the city are manned with a sufficient reserve force.

In the training of young cadres, pressure is exerted to tap their latent potential and to make them exert themselves in practice. In recent years, Suzhou City has suspended the duties of nearly 200 county- and bureau-level reserve cadres and 365 young city-level functionaries and seconded them to towns and townships for tempering. These young cadres are mainly sent to places with a poor economic foundation, where work is backward in all respects, so they can face the challenge of difficulties, withstand tests and improve themselves. They are assigned specific tasks and targets and assessed annually. Those who excel themselves may be transferred back to their original units or promoted. Wang Jinhua [3769 6855 5478], former Director of the Bureau of Industry and Commerce in Kunshan City, was seconded to the notoriously poor Chengbei Township to be its secretary. During his four-year term there, he changed the appearance of this poverty-stricken place. This township became the township with the second highest per-capita gross national output in the whole of Suzhou. He was commended by the city party committee and was subsequently promoted to be standing committee member of Kunshan City CPC Committee, Vice Mayor of Kunshan and Director of the Shaxi New District Management Committee in Suzhou City.

### III. Fully Bring Into Play the Role of Primary Party Organizations as Fighting Bastions, as Well as the Exemplary Vanguard Role of Party Members

While grasping economic work, Suzhou City also attached great importance to party building. City Party Committee Secretary Wang Minsheng said with profound understanding that the key to the weak foundation in the work in many places lay in their weakness in party building. In Suzhou City, the relations between party building and economic work were figuratively summed up as "three forces ensure one force, one force boosts three forces." This means using the rallying force, appeal force, and

fighting force of party organizations to ensure the growth of productive forces, and relying on the growth of productive forces to boost the rallying force, appeal force, and fighting force of party organizations.

1. Readjust the organizational setup, strengthen the leadership of primary party organizations over economic work. In order to meet the demands of a growing rural collective economy, Suzhou City established agricultural, industrial and commercial corporations in all of its 166 towns and townships, with secretaries of town and township party committees serving as presidents of the boards of directors, and deputy party secretaries serving as general managers of these corporations, assisted by a number of assistant general managers with special responsibilities. In this way, town and township party committees are given leadership responsibility in economic work through organizational arrangements. This strengthens the position of town and township party committees as the core of leadership in economic work. At the same time, village-level organizational development with village party branches as the core is also strengthened. In village-run enterprises with a heavy concentration of labor, party branches or general party branches are established, with village party branch secretaries serving concurrently as factory directors. The practice of integrated party and administrative leadership in medium-sized and small enterprises and town and township enterprises is conducive to the organic integration of party-building and economic work.

2. Strengthen education and management over party members, bring into play their exemplary vanguard role in economic construction. With solid collective economic strength, Suzhou City realized the popularization of party member education and management in three respects: 1) The popularization of grass-roots-level party schools. There are now 489 grass-roots-level party schools in towns, townships, neighborhoods, and enterprises. In 1991 alone, these schools provided training to 130,000 party members on a rotational basis as well as 1,368 activists seeking party membership. 2) The popularization of education by electronic means. The rate of the popularization of television sets, video recorders and radios in the city's 166 towns and townships is as high as 100 percent. 3) The popularization of party activity rooms. A total of 91 percent of party branches in administrative villages in the city have party activity rooms. These number 3,356 in all. It is precisely through these propaganda and education facilities that primary party organizations in Suzhou City strengthened their education and management over party members, brought into play the exemplary vanguard role of the vast numbers of party members in economic construction, and promoted the development of economic construction. Several years ago, a pearl market emerged near Huangdai Township in Wuxian County. Seeing profit in the pearl business, many people in neighboring villages quit their collective enterprises to become individual traders. This

caused many town and township enterprises to suspend operation or even close shop. At this juncture, the local township and village party organizations strengthened education over party members. Party members were urged to correct their orientation, resolutely take the road of collective prosperity, and play their exemplary vanguard role in developing the collective economy. As a result, not a single party member quit his job to become a self-employed trader. Under the influence and motivation of party cadres, over 2,000 self-employed traders returned to their town and township enterprises, and the collective economy became more and more prosperous.

3. Pay attention to recruiting party members from the backbone of economic construction. Suzhou City always put the stress on the backbone of rural economic construction in the recruitment of party members in rural areas. They believed that the advanced character of rural party members should mainly find expression in the work of developing the rural economy and leading the masses to achieve common prosperity. Only party members who are the backbone of production and are experts in achieving prosperity can play an exemplary vanguard role in economic construction. In 1991, the city recruited 1,802 party members from the backbone of rural economic construction. The admission of this backbone force into the party has helped improve the structure of the party ranks and increase the party's strength on the economic front. According to incomplete statistics, among these party members recruited in recent years, over 60 percent have been cited advanced models at various levels.

4. The more the economy develops, the more strict the party should be run. Party organizations at various levels of Suzhou have attached great importance to regular anticorruption education among party cadres so that party members and cadres can always remain sober-headed and can check erroneous ideas at the outset. In its effort to build a clean government, Suzhou City laid down four principles and five lines of demarcation in the policy on business operations. The four principles are: First, public interests versus private interests; second, active act versus passive act; third, mistake versus dereliction of duties; and fourth, general problems versus violations of law and discipline. The five lines of demarcation are: The line between operating expenses and non-operating expenses; the line between normal entertaining in economic exchanges and extravagant wining, dining, and squandering at public expense; the line between small souvenirs and the offering and taking of bribes; the line between reasonable remuneration and illegal gains; and the line between legitimate welfare benefits to staff and workers and the indiscriminate issuing of cash bonuses. These principles and lines of demarcation in policy not only can place party cadres under supervision and keep them within bounds, but can unfetter their hands and feet in developing the economy.



**Poll: Vote-Buying In Elections Widely Expected**92CM0400A Taipei TZULI WANPAO in Chinese  
9 Aug 92 p 1

[Article by Chang Ming-hsien (1728 2494 6343): "Poll: Vote-Buying in Year-end Elections Widely Expected"]

[Text] Over 60 percent of the people interviewed in the latest Gallup poll thought that vote-buying would be a serious problem in the Legislative Yuan elections at the end of the year. The interviewees also believed that after they are elected, the candidates backed by monied interests would use their office to put pressure on the administrative and present their interests. The interviewees gave the performance of members of the Legislative Yuan in the last six months a failing grade—50 points on the average—but thought they deserved a second chance.

"This survey was commissioned by the Shen Chun-chih Cultural and Educational Foundation and conducted by the Gallup Organization. The Shen Chun-chih Cultural and Educational Foundation was financed by Shen Ching-ching [3088 1987 0079], a stock market bigwig. Shen Ching-ching is a candidate in the year-end legislative election in Taipei." The survey was done via telephone. Of the 3,799 sample households randomly selected in all Taiwan, 1,315 people were interviewed, yielding a success rate of 64.9 percent. The survey was conducted in late July.

Survey results show that 73 percent of the interviewees were worried that after they are elected, candidates backed by monied interests would put pressure on the administrative agencies on behalf of those interests. Only 8.2 percent said they had no such concern. The level of concern was highest among interviewees who were male, young, and highly educated, whose families came from other provinces, and who live in the north or in municipalities administered by the Executive Yuan.

Moreover, 64 percent of the interviewees believed that vote-buying would be a serious problem in the elections scheduled for the end of the year. Such a belief was most strongly held among male and highly educated interviewees between the ages of 30 and 39.

Furthermore, 42 percent of the interviewees gave a failing grade to the performance of the Legislative Yuan as a watchdog of the government in the past six months; 32 percent gave it between 60 and 69 points and only 2.1 percent gave it over 80 points, for an average of just 50 points. This shows that there is still a lot of room for improvement in the performance of the Legislative Yuan as a watchdog of the government.

**Ties Fuel Calls for Strengthening, Independence**92CM0400D Taipei TZULI WANPAO in Chinese  
20 Aug 92 p 3

[Article by TZULI WANPAO reporters: "Beijing-Seoul Ties Fuel Calls for Taiwan Self-Strengthening, Independence"]

[Text] [Chang Jui-chang (1728 3843 2490) reports from Taipei] Commenting on the imminent establishment of diplomatic relations between South Korea and Beijing, Li

Ying-yuen [2621 2019 0337], vice chairman of the Taiwan Independence Alliance, noted that the incident again proves that Taiwan's "one-China, two-entities" foreign policy is unworkable and deals a real blow to people who fantasize about reunification. He proposed that the National Reunification Council, which he said hurts Taiwan's chances for survival and development, be abolished, and that we declare a policy of "one China, one Taiwan." Li Ying-yuen also attacked Minister of Finance Wang Chien-hsuan's [3769 1696 3531] speech as "firing empty shells."

Taiwan objectively qualifies for statehood, he emphasized. In the future, the people of Taiwan should subjectively have their own nation, much like Israel or the three small Baltic republics. Only a "one China, one Taiwan" policy featuring a Republic of China can put an end to Taiwan's string of diplomatic setbacks.

He ridiculed Minister Wang Chien-hsuan's call for "strengthening Taiwan, reunifying China," saying it was mere self-consolation or "firing empty shells." He noted that any nation is guided by its own practical interests when it comes to establishing diplomatic relations. If we want to blame anybody, we can only blame our own mistaken policy. If it is an independent nation, Taiwan too can set up diplomatic ties with Russia, North Korea, and Vietnam. He hoped that the establishment of diplomatic relations between Beijing and Seoul would help people who feel strongly about reunification see the light soon and stop dreaming about meaningless things.

[Peng Lin-sung (1756 3829 3247) reports from Taipei] Lu Hsiu-yi [4151 0208 0001], a Legislative Yuan member, has criticized Minister of Finance Wang Chien-hsuan for sheer irresponsibility in remarking that there would be no diplomatic problems after China is reunified. His words, the law-maker said, also reflect the KMT's "waiting for Chinese reunification" mentality.

Lu Hsiu-yi blames Taiwan's current diplomatic quandary on the KMT and its mistaken policy. But rather than demanding that the administrative official resign, he suggested that a better approach would be to review the "one China" policy closely. He proposed that the government issue statements aimed at South Korea, China, the world community, and the nation itself to make clear its stand.

Lu Hsiu-yi noted that if China is reunified, Taiwan will cease to exist, so of course there would be no diplomatic problems. Wang Chien-hsuan's remark is reflective of the "waiting for Chinese reunification" mentality and ignores Taiwan as a real political entity. To wait for reunification, Lu Hsiu-yi said, is to put Taiwan's destiny at the mercy of an unknown future. For the moment we should work hard to fight for international recognition.

Lu Hsiu-yi proposed that the government issue four statements immediately:

1. To South Korea: Tell South Korea not to forget an old friend even as it makes new ones. Taiwan and South Korea should continue to increase exchanges.

2. Internationally: Tell the world community that Taiwan wants to develop diplomatic relations with all friendly nations, including North Korea, whether they are rich or poor, big or small.

3. Chinese Communists: Warn China that if it continues to attack Taiwan in the international community and reject even dual recognition, Taiwan will reconsider the "one China" policy.

4. To its countrymen: Appeal to the people not to react to the situation emotionally, otherwise we will only make a bad situation worse and hurt national dignity. Also we need to tell the people solemnly that we are pursuing dual recognition.

[Hsu Shu-fen [6079 3219 5338] reports from Taipei] The most effective means to counteract Communist China is to strengthen Taiwan instead of naively hoping that Beijing would reciprocate with goodwill. So said Vice Chairman Li Ching-hua [2621 1987 5478] of the Chinese Olympic Committee this morning in response to the news that Beijing and Seoul will be establishing diplomatic ties soon. An unequivocal advocate of direct flights and shipping between the two sides of the straits, Li Ching-hua argued that direct communications are advantageous to Taiwan and that Taiwan must not lift a rock only to drop it on its own feet just because China is treating it badly.

Li Ching-hua said that changes in Beijing-Seoul relations are an old issue that has been going on for years. Moreover, Beijing and Seoul were expected to establish diplomatic ties sooner or later. Those who link direct flights and shipping with establishment of diplomatic ties are trying to mislead the public. What they are doing may backfire.

He said that it is clear from the establishment of diplomatic ties between Beijing and Seoul that China is only being politically pragmatic when it refuses to give Taiwan diplomatic space. Certainly we don't like it, but we cannot possibly expect China to reciprocate with goodwill.

Direct flights and shipping between the two sides of the straits, Li Ching-hua said, are in Taiwan's interests. It will act as a catalyst for change on the mainland without affecting Taiwan's security. Before someone is allowed to board a plane or a ship, he must produce Taiwan-issued travel documents. Neither side will put up any flags, so the issue of dignity does not arise.

[Peng Lin-sung reports from Taipei] As Taiwan-South Korean relations are about to undergo another imminent change, Lin Cheng-chieh [2651 2973 2638], a Legislative Yuan member, said this morning that we must first solve the bi-coastal problem if we are to free ourselves from our diplomatic impasse. For the moment, he said, we must concentrate on handling bi-coastal relations and "turn our backs on the diplomatic battlefield."

International politics, according to Lin Cheng-chieh, is a reflection of international economics. That South Korea saw a huge market on the mainland and decided in favor of Beijing is a sign of its pragmatic diplomacy. He emphasized that as long as bi-coastal relations are not improved, we will inevitably continue to suffer diplomatic setbacks.

Lin Cheng-chieh emphasized that the number one issue for Taiwan is bi-coastal relations. He suggested that it increases its influence on the mainland by stepping up private contacts. If people on the other side of the straits feel increasingly friendly toward Taiwan, the CCP naturally would not move against it.

Lin Cheng-chieh also proposed that we engineer a bi-coastal summit meeting. The government should take the initiative to start a dialogue with the Chinese Communists and declare to the world that Li Teng-hui [2621 4098 6540] is prepared to enter into a dialogue with CCP leaders to defuse hostility and usher in an era of friendship and peace.

### Future of Taiwan No 'Dream'

92CM0400C Taipei TZULI WANPAO in Chinese  
20 Aug 92 p 3

[Article by Hsiao Hsin-huang (3618 2450 3552), deputy director, Institute of Nationality Studies, Central Academy : "Taiwan's Future Is Not a Dream"]

[Text] A few years ago there was a pop song called "My Future Is Not A Dream" which embodies the subculture of Taiwan's young people. Reportedly President Li Teng-hui [2621 4098 6540] liked the song too, which only made it even more popular. It could be heard in many large gatherings. For a while "dreaming" was all the rage among politicians also. Everybody had dreams. Everybody talked expansively about dreams coming true.

When the Li-Hsu regime first took shape, it was described as the new dream of the redistribution of political power in Taiwan. Provincialism was unexpectedly politicized after martial law was lifted, not just the kind of provincial consciousness of Taiwanese years ago which arose from anxiety borne of oppression, but also the provincial origins-related concern of some people from other provinces as they face the new political situation today. Thus while some people see the new provincialism as heralding the beginning of a dream of building an independent nation, others dream about unifying greater China. The transformation of the National Assembly forced all elderly deputies to step down, but the dawn did not last long before a new privileged group came to power. This has been interpreted by the public as the beginning of another nightmare, yet for the new "robbers" who are reaping both wealth and power, it is the beginning of a new dream. Since the National Assembly election of last year, it looks like we have a rudimentary two-party system composed of the ruling party and the one out of power. While they are not equally strong, they have led some people to dream about the steady development of party rule in Taiwan. Yet the two scandals—the "18 tenders" case and the vote-buying case—have woken up many dreamers.

The six-year national construction dream, the joint handiwork of Hsu and Kuo, did have many people cheering at one point. Some people naively greeted it as the beginning of a new era in Taiwan development. Others supported it insincerely. One year later, however, it is now realized that

it is no more than a rearrangement of high-level government-business relations. It will not benefit the man in the street but may actually get him into trouble. As bi-coastal trade grew by leaps and bounds, small business served as a cat's paw to pave the way for large corporations. This too has encouraged some people to daydream about transforming the mainland with "Taiwan experience." As people still feel some lingering fear following the murder of a small businessman, big business is already put pressure on the government to allow direct flights and shipping between the two sides of the strait. No sooner was the import of foreign labor legalized than mainland labor is scheduled to arrive here in droves to liberate Taiwan from its labor shortage. The argument that we should prevent an "outflow of profits" is ignorant nonsense. Hau Pei-tsun is so eager to have mainland labor come to Taiwan. What kind of dream is that? Meanwhile, the Ministry of Finance is clamoring to establish a financial presence on the mainland even as Taiwan Bank is pouring cold water on the idea and the Industrial Bureau says go slow. Apparently it is increasingly clear that we have an indecisive mainland policy. All are dreaming a mainland dream but our dreams are different.

Many a dream has been dreamed in the past three years of change in Taiwan: sweet dreams, nightmares, even daydreams. We have only mentioned a handful above but they are enough to fully illustrate the fact that the future is just a haze of variables beyond one's control. Still, there seems to be some basic rule at work. Some people applaud it, others bemoan it. Some look to it as a way to turn their fortunes around. Others want to stop it so that their vested interests would not be disturbed.

Taiwan's future is not a dream. This statement can be followed by a question mark or an exclamation mark, depending on how we plan our future in our clear-headed moments.

### **New Copyright Law Nightmare for Publishers**

92CE0668A Taipei CHUNG-YANG JIH-PAO  
in Chinese 12 Aug 92 p 3

[Article: "'Copyright Law' Must Be Revised"]

[Text] The Taipei Municipal Newspaper Association held a panel discussion at CHUNG-YANG JIH-PAO on the new "Copyright Law." Since this law appeared rather suddenly, and since various provisions of it very greatly changed regulations to which society has long been accustomed, not only are newspaper members of the newspaper association much concerned, but government officials in charge, legal scholars and experts, and lawyers invited to attend the discussion were also inclined to speak out. Each dissected from the standpoint of his or her own profession the advantages and the disadvantages, the gains and losses, and the important significance and value of this "Copyright Law," and provided their views to the authorities for consideration in future amendment of the law.

There is no denying that the present revision of the "Copyright Law" results from American concern and pressure. One might say that it was done under the shadow

of "Special Article 301." Consequently, this amendment not only reflects an orientation toward severe fines and severe penalties, calling for imprisonment in addition to fines, but the severity of its provisions also border on harshness. Although it is true that all this demonstrates the nation's intent to increase protection of copyrights now that the economy is prosperous, and to show respect for "intellectual property," which is what a modern nation should do; nevertheless, it cannot be denied that the harshness of the provisions suggest too great a solicitude for the United States and response to its demands. Furthermore, it does not sufficiently take into account domestic realities as well as the government's ability to enforce the law.

It must be realized that when a piece of legislation is excessively idealistic, and thus not realistic, failure to enforce it strictly results in everyone violating the law. When this happens, how can the government enforce the law? How can civil rights be upheld in this circumstance? "Even good laws do not enforce themselves," so how can legislation such as this have real meaning? This is a matter to which we should pay attention.

The focus of discussion during the panel discussion was on articles 11 and 12 of the new "copyright law." The provisions of these two articles are, in fact, extremely difficult for a juridical person to meet, and may frequently land him in trouble.

Article 11 provides that "writing that an employee of a juridical person completes on the job on the instruction of a juridical person belongs to the writer; however, if a contract provides that the person who paid for it or his representative is the author, the contract applies."

In other words, the copyright for material that staff members and workers of a corporation write for the corporation belongs to the staff members and workers in the absence of a separate agreement to the contrary. Presumably, the original intent of the legislation was protection of the copyrights of employees, the motivation was to incline toward the weak in society, which is commendable. However, the phrasing used in this instance delivers a considerable blow to society. Naturally this is something that the legislators never expected. For example, when a newspaper reporter goes out to gather news and returns to the office to write what is "purely a news report for the purpose of relaying facts," naturally there is no problem. Copyrighting is not involved. However, if the column or special article that a reporter writes contains personal analysis or discussion, and is not purely a relaying of the facts, that can cause trouble. First of all, determination whether the article should enjoy copyright may cause controversy, and if it is deemed an object that merits protection under the "copyright law," the trouble is greater.

Because the copyright belongs to the reporter personally, he may invoke the provisions of "authors' rights" in Section 2, Article 3 of the copyright law, requiring that the editor not change a single word in the article, while simultaneously demanding that it be given top billing on



the front page, otherwise he will not allow it to be printed, and if it is printed, he will sue. This means up to 2 years in jail and a fine of up to NT\$100,000.

An editor may also tell the chief editor that he cannot change his headline, much less can he change his layout since to do so it to infringe his editor copyright and, the chief editor setting himself up for a lawsuit!

An editorial writer may even more plausibly and lengthily tell the editor-in-chief that he may not change a single word since the copyright belongs to him. Change it and be prepared for a suit.

Given such a situation, a newspaper would find it difficult to stay in business.

As another example, a computer software company assembles scores or even hundreds of programmers, but the copyright jointly belongs to these few score or few hundred people. After a period of time, the company wants to update this software, but some of the original programmers have left the company, and some have gone abroad; consequently, the updating plan is extremely irksome. It is an oversight, and the company prepares to be sued.

Even more trenchantly, you hire a lawyer to help you bring suit, but even though you paid for all the documents that the lawyer wrote, the copyright belongs to the lawyer; unless he nods approval, you will not even be able to photocopy them if you want to use them.

Although Article 11 and Article 12 contain "provisos" permitting the use of contract agreements to get around the above hindrances, these agreements are still a problem as well.

First, the section on "writers' property rights" provides that these rights "may be completely or partially assigned or shared," and "others may be authorized to use one's writing." However, Article 75 provides that "should any of the following apply, in the absence of registration, there is no recourse against a third person: 1) Limitations on the assignment of property rights, exclusive authorization, or disposition..." This is extremely irksome. Take the newspaper business, for example. How many procedures have to be gone through to put out a newspaper? How many layers of manpower have to be penetrated? And for an agreement among them to be really effective, how much trouble is required? Never mind the trouble, the important thing is that a newspaper is a business that competes against time. This being the case, if the law were diligently enforced, a newspaper would have to halt publication. Should the employees not agree with the juridical person's arrangements, what can be done? This is no violation of the "basic labor law" [laojifa 0525 1015 3127] so there is really no way of dealing with it, and there is no way out!

Another question that needs discussion is whether "writers' personal rights" may be assigned. The exercise of writers' rights has rather broad ramifications. It has to do with the rescue [jiuji 2405 3444] of rights, indemnification of civil losses, and criminal prosecution rights. This includes "the criminal prosecution right," which cannot be forfeited. For example, suppose driver A accidentally

injures B with a vehicle, damages are paid to conclude the matter amicably. Although an agreement provides that neither party may contest this case further, Party B subsequently sues Party A. This is permissible since "criminal prosecution rights" cannot be forfeited, and this is valid no matter what the reconciliation statement provides. Can such a situation likewise be applied to an agreement involving "writers' rights," thereby invalidating the agreement? This really has to be considered and studied. If this questionable point cannot be clarified, then an agreement between a juridical person or person making payment with an employee or person being paid that involves the forfeiture of writers' rights loses legal protection. This is unfair, and it also violates the spirit of civil law.

Moreover, the provisions of articles 11 and 12 collide with the Patent Law. Article 51 of the Patent Law provides that "Patent rights for employment-related inventions of employees belong to the employer, but that when a contract exists, provisions of the contract are to apply." This is just the reverse of articles 51 and 52 of the Copyright Law.

Article 111 of the Patent Law provides that "all who first create aesthetically pleasing new styles of the form, design, and color of a thing may apply for patent in accordance with this law," but writing as defined in the copyright law includes artistic works, and graphics.

If new styles of art or crafts are to be registered in accordance with the provisions of the Patent Law, and pertinent provisions of patent rights and copyrights are just the reverse, how can this be handled? Does the Patent Law take precedence over the copyright law? Or does the copyright law take precedence over the patent law? This is a problem in which there is an obvious clash, and one that may very well arise in every company that has anything to do with art, crafts, graphic design, photography, etc.

The foregoing serves to illustrate the real problems that articles 11 and 12 of the new copyright law cause. Not only do they conflict in places with legal theory, but they also raise stumbling block that are difficult to negotiate in practice. This has the effect of negating all law, thereby discounting the prestige and the validity of the copyright law. We sincerely recommend that the Ministry of Interior Copyright Committee immediately plan to revise the law to give full expression to the intent to protect copyrights; otherwise, the law becomes a dead letter. Although the law exists, it does not function, it becomes onerous, and its rigorous enforcement must inevitably lead to unbounded hardships. Administrative units should think carefully, and legislative units must particularly express the popular will. What sense is there in having a law that everyone violates?

**Editorial on Social Impact of Foreign Labor**  
92CE0668B Taipei CHUNG-YANG JIH-PAO  
in Chinese 10 Aug 92 p 3

[Editorial: "Setting the Foreign Labor Quota and Distribution"]

[Text] In the wake of the controversy over basic wages, the Executive Yuan's Labor Committee has announced

removal of restrictions on the number of second wave foreign laborers, dividing them into three major categories encompassing 68 different trades and totaling 32,000 in number.

This expansion of the foreign labor quota is expected to arouse dissatisfaction on the part of the Ministry of Economics, management, and the trade unions. Consequently, just how to decide the most appropriate, or a fairly appropriate, foreign labor quota, as well as how to divide it up, must be the most crucial part of the liberalized foreign labor policy. The Labor Committee must analyze the matter thoroughly.

Where no control was exercised, naturally no appropriate labor quota problem would exist since wage rates would naturally attract different numbers of foreign laborers, who would become intermixed with Taiwan's own laborers. However, in view of the "social costs" that foreign laborers occasion, a policy of complete removal of restrictions seems inappropriate by any means. Therefore, how to decide just how many foreign laborers the entire society can accommodate becomes the primary task in foreign labor control. In this sense, the so-called "most appropriate" quota might be defined as the largest number that can be accommodated. Moreover, it is only when industries need for foreign labor exceeds this amount that the quota has significance; thus, one might also say that this places the greatest limitation on the importation of foreign labor.

In the absence of knowledge about the maximum number of foreign laborers that our society can accommodate, we have to begin with information about industry's labor shortage and its need for foreign labor. An Industrial Trade Union headquarters survey shows a 180,000 manpower shortage for all trades; however, the comptroller's office's data is less than half complete. The Republic of China Public Opinion Testing Association estimates, on the basis of various assumptions, a need for between 40,000 and 60,000.

The Industrial Trade Union's high estimate is understandable, but since all restrictions on the foreign labor quota are not to be removed, needs is not the sole factor in deciding the foreign labor quota. Furthermore, it is just because no one knows the maximum number of foreign laborers that the country can accommodate that it is difficult to avoid suspicion of arbitrariness in determining a quota. However, only a short time is available to make the difficult judgment about implementation of a policy in which the number of foreign laborers is more in keeping with the law than heretofore. Since the control experience of all government agencies is deemed inadequate, learning as events unfold, moving along gradually, and approving a strict quota at the outset should be and must be the policy that is maintained.

Actually, given previous experience in which five major trades originally planned for more than 10,000 foreign laborers, but ended up bringing in only between 3,000 and 4,000, it is clear that the number of foreign laborers who can be properly employed is surely much fewer than the

number originally desired. Therefore, when management complains about quota widening as being too low, what is actually needed are more positive suggestions about improving efficiency in their assignment as well as the degree to which the quota is used. If manufacturing industries and construction industries (not including major national construction projects) can bring in the entire 32,000 foreign laborers and make full use of them, that will greatly help the labor shortage problem. However, over the long term, the problem of the so-called appropriate or largest number of foreign laborers that can be accommodated will have to be studied. In this connection, consideration will have to be given to at least the following several factors: 1) Administrative control capabilities. Since existing police, housing, and labor units will be involved in every aspect from the time that foreign laborers make application, to approval, to arrival, as well as in their post-employment removal, or even their departure from Taiwan or an extension of their stay, the maximum size of these units will have to be considered. One can also estimate from this the administrative costs involved. 2) Society's ability to accommodate them. This includes the impact on society of foreign laborers' spare time, housing, transportation, and public order needs, estimating from these the number that can be accommodated. This requires detailed data about the assignment of the foreigner laborers in the country so that the government agencies concerned can prepare some basic statistics to help analysis. 3) Cultural accommodation capabilities. The extent to which the foreign laborers' religion, art, and value concepts are compatible with those of the local populace will have to be considered and estimates made.

Naturally, the foregoing estimates will have to be postulated and simulated in many regards, and some of the coefficients may be artificial or arbitrary. Nevertheless, as the foreign labor import system is steadily revised, these estimates will also become increasingly close to objective social reality, and this will also make foreign labor policy more in keeping with economic welfare methods. In addition, the experiences of nearby Hong Kong and Singapore in deciding foreign labor quotas can naturally be used for guidance.

After the maximum possible number of foreign laborers that society can accommodate has been determined, how to set annual quotas will additionally require calculation of the quota utilization rate, turnover rate, and foreign laborer placement expenses. Actually, how to assign a given number of foreign laborers to the places where they are needed most, and how to raise efficiency in making assignments also have a bearing on the design of the foreign laborer control system. This deserves more Labor Committee study.

The 32,000 foreign laborer quota has been divided into three categories as follows: 1) important exporting trades; 2) trades crucially important to the development of industry; and 3) trades in which the nature of the work is hard, in which the labor shortage is serious, and that are of major importance to industrial development. Sixty trades have been preliminarily selected on the basis

of this definition of three categories. Similarly, the number of people assigned to these trades is also somewhat arbitrary. At first, this may be acceptable, but analysis and study will have to be done as quickly as possible in the future so that the foreign labor quota is assigned most efficiently.

In addition, the firms that apply for foreign laborers also must meet various restrictions, including no assignment of fewer than 10 employees, no fewer than three foreign laborers employed in each entrepreneurial unit, and

foreign laborers numbering no more than 30 percent of the total staff members and workers. This has been done largely with the concepts of "equal sharing" and controlling costs in mind. Whether this method of distribution is suitable will also require further study. Finally, detailed methods will have to be worked out in the method of assignment for decreasing the quota rather than adding to it in order to increase the quota utilization rate. This is also an important point meriting serious attention in the foreign labor assignment system.



**Article Challenges UDHK Representativeness**

92CM0405B Hong Kong TA KUNG PAO in Chinese  
8 Aug 92 p 7

[Article by Fan Ju (5400 5282): "UDHK Not Representative Of Public Interests"]

[Excerpts] Hong Kong's "democratic faction" fantasizes that it has one trump card, namely, public opinion, which is ever on its lips. It is increasingly arrogant and aggressive in both word and deed. Take, for instance, the leaders of the Union for Democracy in Hong Kong (UDHK)—Li Zhuming [2621 2691 6900], Yang Sen [2799 2773], and Liu Qianshi [0491 0578 4258]. Everywhere they indulge in loud and empty talk. On all public occasions and whenever they are quoted in newspapers and magazines, they invariably sound so smug and complacent. They have gotten to the point where they can hardly open their mouths without mentioning public opinion. Exaggerating their own importance, they keep referring to the "17 directly elected council members who represent all Hong Kong citizens" and suggesting that "the people of Hong Kong have bestowed power on them."

At first glance they really seem to be the citizens' natural representatives. You would think they are genuinely fighting for the interests of the citizens. But if we closely observe and analyze their actions, we will have no trouble discovering that there is a wide gap between what these people are after and what most citizens are concerned about. Nor would we fail to see through the clever tricks they use to mislead, confuse, and deceive the people of Hong Kong. [passage omitted]

These days a host of concerns are on the minds of the people of Hong Kong, notably the following. First the number of jobless people has been rising steadily while employment opportunities have diminished. Elderly people, in particular, simply cannot find a job. On the other hand, social welfare in Hong Kong has always been grossly inadequate. The accumulation fund issue is still unresolved and the long-term employment fund works to the disadvantage of labor. The elderly have no certain means of livelihood in their twilight years. Second, inflation has been hovering around 10 percent while anti-inflation measures have proved ineffective. Using a variety of excuses, some private employers have refused to raise pay or done so only niggardly so that the living standards of the ordinary wage-earners have effectively declined. Third, home-ownership has ceased to exist except in name as housing costs kept soaring to levels beyond the reach of the middle and lower strata of society. In addition, the rents of public housing units have been hiked by increasingly wider margins. So-called "rich households" are even required to pay double the amount. As housing costs became more and more burdensome for the vast majority of citizens, complaints about the housing policy are heard all around. Fourth, law and order is deteriorating fast. Triad societies are still very active. But even as citizens' lives and properties come under the greatest threat, the UDHK has been nitpicking in each and every way the joint effort by China and Hong Kong to combat crime. Fifth, although millionaires are plentiful in Hong Kong, the

income gap between the rich and the poor is striking. They make people in the lower rungs of society earning between 4,000 and 5,000 Hong Kong dollars a month pay taxes but fail to crack down on big-time tax evaders and tax cheats. Sixth, the problem of Vietnamese boat people has been plaguing Hong Kong for a dozen years now, imposing a heavy burden on its citizens and creating a good deal of social disorder. This problem has yet to be worked out.

Is there a single issue here that is not intimately related to the interests of the citizens of Hong Kong? Although the UDHK, the self-declared "representatives of all citizens," has proclaimed its interest in all these issues, it is only a superficial concern. It has never really made an effort to resolve them. Nor has it come up with any decent suggestions.

To achieve its political ambition, on the contrary, UDHK has only two items on its struggle agenda, things that it regards as its top priorities and tries desperately to achieve: one, demand that the basic law be amended, that the pace of democratization be accelerated, and that the number of directly elected seats in 1995 be increased with hopes of pocketing all elected seats on the Legislative Council (Legco); and, two, put pressure on the governor as well as the Chinese in every way possible in a vain attempt to force them to appoint UDHK members on to the Executive Council en masse in the same proportion that they occupy elected seats on the Legco. They figure that if the two chambers are thus combined, it would be easier for them to "fish in troubled waters" and achieve their ambition, which is to win the power to deliberate as well as to do things and run Hong Kong as Hong Kong people. UDHK is fully mobilized and totally committed to achieving these two goals. Apparently it would not rest until that happens. [passage omitted]

Look, they propagate all kinds of fallacies on all forums, publish endless articles in all sorts of newspapers, make every wild statement on the floor of Legco, and are even more impudent when they talk to the press. The aggressiveness and relentlessness of their campaign is unprecedented. Speech, moreover, is coordinated with actions. At one point they were flying frequently to London seeking help. Another time they went to Taiwan for secret consultations at the invitation of some private individuals. If they are not marching to the governor's mansion or gathering signatures at a subway station, they are saturating the newspapers with paid advertisements or holding a press conference. How busy! For their own personal interests they are certainly sweating their guts out. [passage omitted]

The fact is that the UDHK cares far less about the citizens of Hong Kong than it does about the "democratic political system." It does not hesitate to risk antagonizing China and thus ruining Hong Kong. Nor does it have any qualms about colluding with foreign forces. How then can it put citizens' interests above its own interests as a political group?

One other point. The performance of Chinese athletes in the recent Olympic Games in Barcelona was certainly

something of interest to all citizens. Every time an outstanding Chinese athlete won a gold medal or broke a record, it was cause for joy and celebration. Yet there was a handful of people from the democratic camp who were simply out of tune with the ordinary citizens in this matter. In the same way that they played down China's achievements in the Asian Games, they again poured cold water on the Olympic Games. Achievements that resulted from long and hard training, they insist, were an attempt by the Chinese to "divert public attention" and "cover up internal contradictions." So once again they have shown that they are out of step with the vast majority of citizens. In what way is this kind of people qualified to trumpet themselves as "representatives of all citizens?"

The time has come for all citizens to think long and hard and choose carefully. Should they turn over the right of representation to the bunch of careerists who say one thing and mean another and are blindly driven by the desire for power? Should they continue to let them engage in activities that pit them against their own fatherland and jeopardize Hong Kong and blatantly seek publicity by flaunting the banner of public opinion? Now is the time to unmask these "democratic" figures. Otherwise, Hong Kong's glorious future will be destroyed by them. Citizens, don't lower your guard in the least.

A lie repeated a hundred times becomes the truth. Does that really happen? If they keep saying "we represent the entire citizenry of Hong Kong" often enough, do they really become the representatives of Hong Kong citizens? UDHK leaders, why rack your brains to create a latter-day myth?

**Legco-Exco Plan May Kill 2 Birds With 1 Stone**  
92CM0405C Hong Kong MING PAO in Chinese  
13 Aug 92 p 11

[Article by Deng Tekang (6772 3676 2123), Lecturer, Political Science Department, University of Hong Kong: "Legco-Exco Separation Plan May Kill Two Birds With One Stone"]

[Excerpts] The announcement of Governor Patten's plan to separate the Legislative Council [Legco] and the Executive Council [Exco] has set off some ripples in the local political circles. Some members who sit on both councils are upset, trying all they can to demonstrate the negative effects of separation. They claim that changing the current inter-council relationship would affect checks and balances as well as cooperation between the two chambers and impede their communication, creating confrontational situations. On the other hand, popularly elected Legco members contend that there should be popularly elected members on the Exco to represent different political forces, a move that will also help win Legco support for the government and make for smooth administration.

Apparently the proposal of separating the Legco and the Exco has not only disrupted vested political interests but has also come under attack from the democratic parties. It hasn't pleased anybody. What has Governor Patten got up his sleeve?

Relations between the legislative and executive branches of government are a rather complex topic in political research. The crux of the problem is this: How do we maintain administrative efficiency while ensuring that democratic wishes are fully expressed at the same time? If the executive is constrained by the legislature at every turn, government policies cannot be carried out smoothly. On the other hand, if the legislature cannot restrain the administrative branch of government or supervise it as representative of the people, the government may act arbitrarily and follow policies contrary to the wishes of the people.

After years of practice in democratic politics, all Western democracies, both those which follow the American presidential system with its three separate branches of government and those which follow the British parliament and cabinet system, have established a mechanism to balance the legislature with the executive. [passage omitted]

In the U.S., where the executive is separate from the legislature, the top officials of administrative departments are appointed by a popularly elected president. They need not report to Congress directly and are not under congressional control. This is how the theory goes. In fact, the president is hamstrung by Congress; he must seek congressional support for and passage of his major proposals. His cabinet appointments must be approved by Congress. In the British cabinet system, the parliament is the supreme organ of power and members of cabinet must be members of parliament. Since the prime minister is the leader of the ruling party and his cabinet members are selected from among the party's members of parliament, the administration, made up of the prime minister and his cabinet, in effect directs parliamentary operations. But parliamentary support is essential if the administration is to carry out its policies smoothly. Thus the ruling party must be highly disciplined and must secure a majority of seats in parliament in a general election.

Hong Kong's political system has traditionally been regarded as an example of the British parliamentary system. However, there were no elections at the central level up until the early 1980's; before that it had been an appointive system throughout. (Basically it was a British colonial system, not a Westminster-style parliamentary democracy at all.) The governor has enormous power. Both executive and legislative procedures were controlled by the administration. Legco members might not toe the administration's line in everything, of course, but the Hong Kong government had never had much trouble in getting a bill through Legco. Legco criticism and supervision of the government mainly took the form of behind-the-scenes consultation and discussion. Moreover, a majority of council members came from the establishment or were members of the elite coopted by the establishment. Inter-council relations were highly stable.

This stable situation changed drastically in the 1980's. With the introduction of a representative system, popularly elected members began to take their seats on Legco. Since they are not appointed by the government, they have a different constituency and represent a different set of

political interests from those of the establishment. They criticize administrative departments openly and frequently. No longer can the administration take Legco acceptance of its position for granted, particularly after the direct election of 1991. Both Legco criticism of this year's proposed budget and its split with the government on the issue of the court of last instance are the product of changes in the composition of the Legco.

Actually it is very easy for the government to resolve the conflict between the two councils: give Legco members who can represent a majority of their colleagues a seat on the Exco. That way it can avoid any impasse created by inter-council disagreements and get its policies through the legislature successfully. A trick in British decolonization was to nurture pro-British political parties, establish a Western-style political system, and stay on good terms with the new government to protect its overseas interests. But decolonization is not for Hong Kong. Britain's primary objective here is a smooth transfer of sovereignty. If it insists on cultivating pro-British political parties in Hong Kong and seating popularly-elected members on the Exco despite the opposition of the Chinese Government, not only will long-term Sino-British relations be damaged, but the plan for an honorable British withdrawal may also be disrupted. [passage omitted]

Separating the Legco and Exco is a smart, kill-two-birds-with-one-stone, strategy in the existing political impasse. It is also a high-risk move for Governor Patten. After the two councils are separated, the government will no longer need to agonize over whether or not to admit

into the Exco popularly elected Legco members who belong to the Union for Democracy in Hong Kong [UDHK] but who are unpopular with China. Moreover, it would deflect attention from the debate about democratization. It would also enable the governor to concentrate power and then work out a strategy to deal with the Legco. After separation, the government may experience greater difficulty in pushing through its proposals through the legislature; it would have to spend more time and energies persuading the Legco to go along with its policies. On the other hand, it can practice brinkmanship with the Legco; if the latter keeps vetoing government policies, it may lose voters' support.

Certainly this strategy is fraught with risk. If the relations between the two chambers are mismanaged and a political deadlock follows, the citizens may lose confidence in the government, creating new political instability before 1997. Moreover, while constitutionally it is within the governor's power not to appoint Legco members onto the Exco, such a move would be a clear departure from Hong Kong's political tradition. The absence of popularly elected members from the Exco also would be a retreat from democratization.

Whether or not Governor Patten can find a way out of the current political impasse will depend on his success as he redefines inter-council relations in identifying new ways in which the two councils can cooperate as well as new avenues through which public opinion can play a greater role in government decision-making.



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27 Nov 1992

